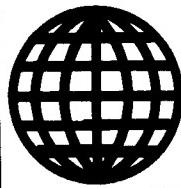


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# **JPRS Report**

## **China**

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# China

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## CONTENTS

24 May 1993

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Problems, Solution to Socialist Market Price System [CAIMAO JINGJI 1 Jan]	1
Suggestions To Avoid Economic Overheating [GUANLI SHIJIE 24 Nov]	6
Article on Pushing Economy to New Stage [JINGJI GUANLI 5 Jan]	14

#### PROVINCIAL

Guangdong Goals for Future Economic Development [GUOJI MAOYI 15 Mar]	21
Guangzhou Simplifies Rules on Enterprise Registration [JINGJI RIBAO 12 Apr]	24
Harbin Increases Hong Kong, Taiwan Investment [JINGJI RIBAO 29 Mar]	25

#### FINANCE, BANKING

Speedy Tax Reform Urged To Boost Market Economy [JINGJI RIBAO 2, 12 Mar]	26
Financial Issues Emphasized in Economic Reform [JINRONG SHIBAO 5 Apr]	31

#### TRANSPORTATION

Air Route Opens Between Shenzhen, Singapore [XINHUA]	33
--	----

#### AGRICULTURE

Introduction to Minister of Agriculture Liu Jiang [NONGMIN RIBAO 1 Apr]	33
Potential GATT Impact on Agricultural Sector [NONGMIN RIBAO 31 Mar]	34
Rural Saving Deposits Increase Steadily [NONGMIN RIBAO 14 Mar]	35
Chemical Fertilizer Plants Suspend Production [JINGJI RIBAO 22 Mar]	37
Rural Economic Structure Growing More Rational [JINGJI CANKAO BAO 6 Apr]	38
Wholesale Farm, Sideline Product Markets Develop [JINGJI CANKAO BAO 11 Apr]	38
Zhejiang Peasants Forsake Contracted Land [NONGMIN RIBAO 6 Apr]	39

#### TAIWAN

New Power Alignments in Legislative Yuan [HSIN HSIN WEN 13 Feb]	40
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## NATIONAL AFFAIRS, POLICY

### Problems, Solution to Socialist Market Price System

93CE0368A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 1, 1 Jan 93  
pp 18-23

[Article by Ma Kai (7456 0418): "On Creating a Socialist Market Price System"]

[Text] To build a socialist market economy, we need to switch to a market economy on several fronts. On the price front, for instance, we need to complete the transition from an over-centralized planned price system to a socialist market price system. A price system can be defined narrowly (as the prices of commodities and the fees of labor services) or broadly (as the prices of capital goods.) This article studies the socialist market price system in its narrow sense, explores the establishment of price reform as a goal, determines its basic content, and looks at ways of speeding up the creation of a new price system. The buying and selling of capital goods on the market and the rationalization of their prices will be discussed only to the extent that they are a prerequisite for the creation and proper operation of a narrowly-defined socialist market price system.

#### 1. Establishment of a Socialist Market Price System

After Deng Xiaoping inspected south China and delivered a key speech there, particularly after the CPC Central Committee affirmed the establishment of a socialist market price system as the general goal of economic restructuring in China, functional agencies in charge of prices and the price theoretical community have achieved a greater measure of consensus. It was agreed that we need to establish a socialist market price system. We had to go through an ongoing process of deepening and development; it must be admitted, before we arrive at a consensus regarding the basic philosophy behind price reform and its goal. This process went hand in hand with the maturation of China's market economy and the maturation of the theory of a socialist market price system. It also went in tandem with continuing price reform in China. In December 1978, the Third Plenum of the 11th CPC Central Committee redirected the focus of party work to economic construction. It emphasized that we must operate in accordance with economic principles and pay attention to the law of value. It also decided to raise the procurement prices of grain, oil, and other leading agricultural byproducts by wide margins starting in 1979, thereby ushering in economic restructuring across the board, including price reform. As the socialist commodity economy and its theory developed and as reform deepened steadily, the basic philosophy behind price reform and its goal also have evolved continuously and matured gradually. We went through three stages in terms of the formation of the goal:

The first stage (1979-1984) was dominated by the idea of "perfecting the planned price system." During this stage, the commodity economy experienced its first developments and the theory of the commodity economy also had a breakthrough. We broke with the notion that "developing a commodity economy amounts to developing capitalism" and recognized that the socialist economy also must use market regulation. Still, what dominated reform at the time was the idea affirmed in the report to the 12th CPC National Congress: "Put the planned economy first, supplemented by market regulation." Correspondingly, the prevailing idea regarding the goal of price reform was: "Put planned prices first, supplemented by free prices." Given this goal, the focus of price reform was on improving the planned price system. In the practice of price reform, the kind of thinking and the choices made were reflected in the emphasis on adjustment. Reform essentially took the form of price adjustment by the government. Altogether there were six major rounds of price adjustment. As for decontrolling official prices and replacing them with market prices, all that was done was some exploratory work. For instance, the prices of small commodities and three kinds of agricultural byproducts were decontrolled and floating prices were introduced for some electrical machinery products. In price theoretical research, this kind of thinking and choices made were reflected in the extensive discussions revolving around the formation of planned prices. There was heated competition among a variety of viewpoints: the "theory of production prices," the "theory of value prices," the "theory of two-channel prices," the "theory of three-channel prices," and the "theory of net asset prices." Furthermore, the State Council set up the State Council Price Research Center to conduct theoretical price calculations for all kinds of planned pricing models in an attempt to build a scientific theoretical price system, and after a number of years of hard work, end distortions in the price structure and basically sort out the price system through price adjustments in accordance with a plan and under the government's leadership. Some comrades at the time did argue that by adjusting the price structure first in accordance with the theoretical price system, we were setting the stage for price decontrol. But such thinking was not part of the mainstream in those days. The first stage of the price system did achieve something in terms of adjusting the price structure and modifying some of the price distortions, thus promoting economic development. But no departure was made from the notion of simply improving the planned price system. What was done in the first stage was an improvement upon the old planned price system, but it was no revolution.

The second stage of price reform (1985-1991) was dominated by the idea of "adopting a mixed price system." During this stage, China's commodity economy, reform, and the open policy continued to develop apace. The "Decision of the CPC Central Committee on Economic Restructuring" adopted by the Third Plenum of the 12th CPC Central Committee in October 1984 in particular

called for a planned commodity economy, stating explicitly that "price reform is vital to the success of economic restructuring overall." It stressed in particular that "the irrationality of the price system is closely related to the irrationality of the price management system. Even as prices are adjusted, we must reform the over-centralized price management system, gradually reduce the scope of state price-setting, expand as appropriate the scope of price floating within set limit and that of price decontrol so that prices will more accurately reflect changes in labor productivity in society as well as changes in market supply and demand, and better satisfy the needs of national economic development." These statements in the "decision" signal that as far as the basic philosophy of price reform and the selection of a goal are concerned, the second stage of price reform represented a fresh departure from the first. First, the mission of price reform. The emphasis was shifted from the adjustment of the price structure to the reform of the overly-centralized price management system, not to mention the adjustment of the irrational price system. Second, the goal of price reform. Instead of simply trying to perfect the planned price system, we now called for the creation of a mixed price system in its embryonic form featuring a mix of uniform state prices, floating prices, and free prices. Third, replace regulation with a mix of regulation and decontrol as the principal method of price reform. These ideas embodied in the "decision" were elaborated in the "Proposals of the CPC Central Committee on Formulating the Seventh Five-Year National Economic and Social Development Plan" adopted by the National Party Congress in September 1985. The proposals markedly broadened the scope of decontrol and for the first time stated the goal of price reform unequivocally: The gradual creation of a price system combining uniformity with flexibility under which a handful of commodity and labor services will be under planned prices but where most prices will be floating prices and free prices. The goal was further affirmed by the 13th CPC National Congress held in October 1987.

In terms of reform philosophy and reform goal, the second stage of price reform broke free from the emphasis on improving the planned price system, decided on combining adjustment with decontrol as a method of reform, and selected a mixed price model where a few prices are planned prices but most prices are market prices. Clearly such thinking represented a major step forward compared to the idea that prevailed in the first stage: put planned prices first, supplemented by market prices; emphasize the adjustment of the price structure, improve the planned price system. Be that as it may, the mixed price system merely divided the pie between planned prices and market prices quantitatively, albeit clearly; it did not specify in qualitative terms what kind of price system the socialist price system should be. Moreover, terms like "a few" and "most" are hazy concepts readily open to arbitrary interpretation in real life. Because of its ill-defined nature and lack of

certainty, having the mixed price system as the goal of price reform obviously worked against the steady deepening of price reform.

It was during the third stage of price reform (which began in 1992) that the goal of creating a socialist market price system was adopted and became the keynote of price reform. In the first two stages, many comrades in both the price theoretical community and functional agencies in the field had already proposed that "price reform" be firmly market-oriented and that our goal be "a market price system under government guidance." Nevertheless, these proposals never took center stage theoretically or practically. After Comrade Deng Xiaoping visited the south and made an important address in early 1992, price departments and theoretical departments reviewed 13 years of experience in price reform and pondered on a reform philosophy for the next 10 years. In the process, they further liberated their thinking and clarified the basic philosophy and goal of reform as "the establishment of a socialist market price system," which essentially means, in the words of the political report to the 14th CPC National Congress, "the creation of a price mechanism dominated by prices formed by the market." Unlike the "mixed price system," this objective clearly epitomizes the essence, bases, and internal rules of the new price system. No doubt this represented a quantum leap and gave us a clear, more scientific understanding of the basic philosophy, basic approaches, and goal of price reform. The establishment of a socialist market price system is defined by the nature of prices. Prices are themselves the product of commodity exchange. As the monetary expression of commodity value, prices often are not formed and realized through market exchanges. Under the traditional over-centralized planned price system, prices were determined via the administrative process. Constrained by subjective and objective conditions, prices often could not accurately reflect the exchange relations that prices should embody. In other words, they frequently reflected neither commodity value nor market supply and demand. Only by allowing prices to return to exchange and take shape through market competition can we enable them to resume their true nature of expressing value and reflecting supply and demand. The establishment of a socialist market price system is also what the establishment of a socialist market economy demands. The essence of a socialist market economy lies in an operating mechanism whereby the government regulates and controls the market, the market forms prices, and prices guide enterprises, which will enable the market to play the fundamental role of allocating resources under macroeconomic government regulation and control. We can clearly see that the market lies at the heart of the new system and prices at the heart of the market. Without a mechanism to form rational prices, there can be no rational or undistorted prices, which will prevent the market from optimizing the allocation of resources. In this sense, if there is no socialist market price system, there can be no socialist market economy at all.

Following the reform philosophy and reform goal already enunciated and in order to meet the requirements of the development of a socialist market economy, the prices of a wide range of products were decontrolled in 1992, from the central level to the localities, without slackening the effort to adjust the price structure. In heavy industry and transportation, the prices of 737 capital goods and transportation fees in 47 categories were under the control of the State Commodity Prices General Administration and other pertinent departments in the State Council in 1991. By 1997, that number had dropped to 89; in one stroke price control on almost 600 products was lifted. Price control on agricultural products was also lifted. In the past, the prices of 40 agricultural products were under state control. Now there are just 10 (including six state-set prices and four guidance prices). Among industrial consumer goods, only a handful of items like salt and some essential drugs and medicines are still under state price control. These measures have enabled the entire price management system to take a big step forward in the direction of the new market price system.

## 2. Basic Contents of Socialist Market Price System

The goal of the socialist market price system has been set. But what is the basic substance of the new price system? What changes need to be made? How to set up and perfect such a system? There still remains a string of theoretical questions that need to be explored. A lot of practical work has yet to be done. From the perspective of management system, a socialist market price system should include at least these four components: "Enterprises set prices on their own, the market forms prices, the government regulates and controls indirectly, and society supervises comprehensively." The result would be a mechanism that forms, operates, regulates, and controls prices in a way that would always ensure the relative rationality of the price structure so as to bring about the rational allocation of resources.

First, "enterprises set prices on their own."

To create a socialist market price mechanism, we must first change the key players in price setting. Under the over-centralized planned economy, the enterprise was merely an appendage of the administrative machinery. What it produced, how much it produced, and how it produced was all determined by the government. How well or how poorly the enterprise operated and its margin of profit had little to do with its own material interests. So the enterprise had limited concern about the prices of its own products. Basically the enterprise was not empowered to set prices. Nor was it motivated to demand such a power urgently. Price-setting power was concentrated in the hands of the government, particularly the central government, which set prices on behalf of tens of thousands of enterprises, that is, the direct producers and operators. This was an important basic reason why the price system had become rigid and the price structure had become distorted. However, as the over-centralized planned economy is being replaced by a

socialist market economy, enterprises gradually become commodity producers and operators that have decision-making authority in their operations, account for their own profits and losses, and are capable of self-development and self-discipline. Thus the level of prices of its products will directly determine the enterprise's own material benefits. To survive and develop on a fiercely competitive market, enterprises also must urgently demand the power to set prices on their own. Armed with such power, the direct producers and dealers of commodities will be able to reflect changes in production costs, market supply and demand, and consumer psychology more directly and more promptly, a precondition for rational flexible prices. To establish a socialist market price system, therefore, we must begin by demanding that enterprises be the principal price setters instead of the government. In other words, apart from a small number of commodity prices and labor fees that are strongly monopolistic in nature and not suited for competition or that have a major impact on social stability and long-term economic development, in which case the government should continue to set prices and where planned prices should remain, the prices of the vast majority of commodities and labor fees should be decontrolled and be replaced by market prices. "He who produces, buys, and sells, or provides services should also set prices." This is a prerequisite for establishing a socialist market price system.

Second, "the market forms prices."

Allowing enterprises to set prices on their own is a prerequisite for the market setting prices, that is, the market forming prices. However, that enterprises set prices does not directly amount to the market setting prices. In the absence of market competition, enterprises setting prices will become enterprises monopolizing price-setting, which will prevent the formation of a competitive market mechanism and rational market prices that accurately reflect the supply-demand situation. To establish a socialist market price system, therefore, we not only need to change the key players in price-setting, but must also change the way prices are formed and the mechanism of price formation.

As explained above, under the over-centralized planned price system, all prices were basically determined in accordance with the principle "planning first, price second" level by level depending on the relations of administrative subordination and also were enforced through administrative means. Prices were extra-market stuff injected into the market. The standard principles governing price formation, such as the law of value, law of supply and demand, and the law of competition were rejected or relegated to a secondary position. Prices formed this way and through this mechanism can hardly reflect the extent of scarcity of resources and have difficulty adjusting to ever-changing social supply and demand. The objective of the socialist market price system is to return prices to exchange and let them take shape through market competition. In other words, the vast majority of commodity prices must be set through

competition between producer and producer, between producer and operator, among producer, operator, and consumer, and between consumer and consumer. Because of market competition, enterprises which formally have the power to set prices actually are under the control of prices. That is, no one operator can single-handedly or objectively determine market prices. All it can do is to accept prices determined by market supply and demand and by competition, and endlessly adjust the direction and scale of his own production or operations, thus promoting the rational movement of capital goods between different sectors and different products. When the demand for a certain commodity exceeds supply, its price goes up amid competition, which means higher profits for the sector or enterprise in question, which in turn, will attract a larger inflow of capital goods. As more capital goods are attracted into the sector involved, the scale of production expands, thereby boosting supply availability in society. When availability rises enough to meet demand, market prices will stabilize at a reasonable level. As supply continues to increase so that it exceeds demand, prices will fall amid competition, depressing the profits of the sector and enterprises concerned, thus triggering an outflow of capital goods and trimming the scale of production. Once again the social supply of the commodity will decrease. When it drops enough to bring supply and demand into line with each other, new balanced market prices will emerge. As supply continues to decline, it will fall below what is needed to meet demand, so the cycle repeats itself. This is the basic mechanism for the formation of market prices. In the process of the formation of market prices, "supply-demand—prices—supply-demand" becomes a self-regulating device: market prices keep departing from the point of equilibrium between supply and demand in search of a new point of equilibrium between supply and demand. The result is a built-in, not external, self-regulating mechanism for ensuring price rationality. It is precisely this highly flexible self-regulating price formation mechanism that is capable of sending price signals to commodity producers, commodity operators, and consumers to accurately reflect supply-demand relations, continuously channeling limited human, financial, and material resources into the various production sectors of society in a way that would optimize allocation, promoting the convergence of the production structure and consumption structure endlessly, and achieving the goals of allocating resources rationally and distributing total social labor proportionately. In this sense, market-formed prices are the very core of the socialist market price system.

### Third, "indirect government regulation and control."

To create a socialist market price system, we also must change the price regulation and control system. Market-formed prices have two distinct advantages: highly flexible and self-regulating. However, they also have two glaring flaws: reactive and haphazard. Market prices usually are an after-the-fact reflection of the supply-demand situation on the market, not a before-the-fact

assessment of the market supply and demand situation to come. They broadly indicate the direction one should take; they give us a general idea as to whether we should expand or reduce the scale of production or operations but cannot pinpoint specifically the extent of such expansion or reduction. In making decisions about prices, economic leaders often are guided by sectoral or partial interests, not the general interest or the overall needs of long-term economic development and resource allocation. This inevitably renders the formation of market prices and its regulation of resource allocation somewhat random, often leading to cyclical fluctuations in prices and production and resulting in a certain amount of social waste. These limitations are magnified and manifest themselves more sharply when aggregate social supply and aggregate social demand are grossly out of balance with one another. This is why market prices need to be regulated as appropriate. It is wrong and harmful to believe that the formation of market prices can be totally unregulated and to reject any necessary government regulation and control and planned guidance.

The point is that the method of government regulation and control must change. Under the over-centralized planned price system, the focus of government regulation and control was on the microeconomic level (setting prices on behalf of enterprises) and on prices themselves (direct price control), with administrative methods being the main tool. (Prices were set through administrative procedures and were enforced with the help of administrative orders.) The goal of the socialist market price system is to shift the focus of government regulation and control of prices from the microeconomic to the macroeconomic, from prices themselves to the market, from relying primarily on administrative tools to relying primarily on economic and legal tools. In a nutshell, from concentrating on direct regulation and control to concentrating on indirect regulation and control. Under the new system, the thrust of state regulation and control of prices would be directed at controlling the overall price level, to be effected by getting a handle on the money supply and balancing aggregate supply with aggregate demand. On the microeconomic level, as far as individual prices are concerned, while a small handful would still be under direct management, the government should stop directly interfering in the vast majority of prices. Instead, it should seek to influence price formation and changes by balancing the total volume, regularizing supply and demand, nurturing the market, limiting monopolies, and stimulating competition. In other words, "the government regulates and controls the market, the market forms prices."

Under the new system dominated by indirect regulation and control, these are the specific measures that we can take: 1) policy guidance. By formulating long- and medium-term development plans, issuing long-term supply-demand projections and resource allocation plans and using a mix of fiscal, tax, and credit policies and interest rates as well as other economic levers, the

government should guide enterprises to achieve its industrial policies. 2) Economic regulation. By aiding the establishment of production bases of important commodities, increasing effective supply, and establishing a sound state reserve system for key commodities to perpetuate commodity supply and demand, the government can check excessive market and price movements. 3) Information guidance. Establish and perfect nationwide market and price information organizations, use the overall strengths of the information network, and issue information for reference purposes, we can reduce the haphazardness of individual price setting and guide the formation of sound market prices. 4) Nurture the market. Vigorously develop markets of all sorts at all levels. Perfect market organizations. Create and develop modern circulation tools to create the market conditions for full competition. 5) Use the law as a restraint. Formulate a host of market and price laws and regulations. Regularize enterprise pricing behavior. Protect and promote fair competition. Prohibit monopolistic prices. Prevent the kind of violent price fluctuations caused by excessive destructive competition. 6) A suitable amount of administrative interference. To minimize price fluctuations and prevent people from jacking up prices to reap staggering profits, we may impose controls on a small number of key market prices by applying price difference rate, profit rate, and temporary price control, or requiring the enterprises to apply to the authorities for permission to raise prices.

#### Fourth, "comprehensive social supervision."

To create a coherent socialist market price system, we also need to establish an effective supervisory system, a three-tier system consisting of national supervision, supervision by society and the masses, and internal enterprise supervision. Essentially this means using laws and regulations to regularize enterprise pricing behavior; prohibiting monopolistic behavior and all sorts of inappropriate competition in accordance with the law; protecting the legitimate rights and interests of producers, operators, and consumers; regulating the healthy operations and proper functioning of the market price formation mechanism; and creating a market environment and good price order for fair competition.

As part of a coherent socialist market price system, these four elements described above make up a single organically related entity and are all indispensable. Market-formed prices are the core of the market price system, "enterprises having the power to set their own prices" is a prerequisite for market forming prices, and both "indirect government regulation and control and comprehensive social supervision" are a guarantee of prices being formed by the market effectively fulfilling their role.

#### 3. Grasp the Favorable Opportunity and Speed Up the Establishment and Improvement of a Socialist Market Price System

After 14 years of price reform, it should be said, the over-centralized planned price system has changed fundamentally. Compare late 1991 with pre-reform 1978.

Direct price-setting by the government is now involved in 20.3 percent of total social commodity retail sales, down from 97 percent; 22.2 percent of the procurement of agricultural products, down from 92.6 percent; 36 percent of ex-factory prices of industrial capital goods, down from almost 100 percent. In 1992 the state again decontrolled prices on a large scale and the share of prices under government control continued to shrink. By late 1992, it can be said with confidence, direct producers and operators together control about 80 percent of overall product price setting in society to various extents, in contrast to the pre-reform days when they had practically no such power at all. A majority of commodity prices and the fees of labor services are being formed in market exchanges. Turning to the price regulation and control system, the old reliance on administrative methods has also changed significantly. The government has been markedly successful and effective in using a mix of fiscal, financial, and other economic tools to regulate the total volume and control the overall price level. The rudiments of a reserve system of key materials have also been put together to check market prices. A number of price laws and regulations have been put into effect. A new price regulation and control system dominated by indirect regulation and control is taking shape.

But many problems remain to be resolved before a socialist market price system can be established. For one thing, some prices that should be deregulated have not been deregulated. Among them are a number of prices which the government should not control or is not able to control. Others should be decontrolled but have not been decontrolled because of a number of restraining factors. So decontrol still has some way to go. Second, because the market is still immature and enterprise pricing behavior remains irregularized, there have been some monopolistic prices and a number of enterprises have been jacking up prices to make a killing. It is common for the prices of some key commodities to rise and fall sharply. Third, planned prices still under government control remain rigid in their formation. A reasonable price regulation system capable of quickly reflecting the terms of production and changes in market supply-and-demand is still elusive. Fourth, the indirect regulation and control system is still incomplete. Regulatory methods are ineffectual. Fifth, the making of price laws and regulations has failed to keep pace. There is as yet not a complete set of laws and regulations directly dealing with the market and prices. Sometimes there is no law one can go by. On other occasions a law does exist but is not being followed. Here we are only talking about prices in the narrow definition (the prices of commodities and labor). If we interpret prices broadly (to include the prices of capital goods), then the task of establishing a socialist market price system will be even more arduous and long-term.

The 14th CPC National Congress unequivocally states that "price reform is critical to market maturation and economic restructuring. The pace of reform should be accelerated and price relations must be straightened out

vigorously depending on the ability of all quarters of society to cope with it in order to establish a price mechanism that features mostly market-formed prices." This is what it takes to accelerate the development of a socialist market economy and to raise the entire national economy to new heights. For the moment the macroeconomic environment is quite favorable, the market system is taking shape embryonically, the enterprises are changing their operating mechanism, and the differences between prices inside and outside the plan are shrinking. All of that will pave the way for our ongoing drive for price reform. We should grasp this opportunity to speed up the establishment and perfection of a socialist market price system by revolving around the transformation of the price formation, price operation, and price regulation and control mechanisms.

First, continue to enlarge the share of market prices. On the one hand, prices that have been decontrolled must be truly set free. The power to set prices must be really handed over to enterprises, without being siphoned off level after level along the way. Then there are the prices of ordinary commodities and service charges which have not been decontrolled. Price control should be firmly and decisively lifted if the production and trading of the commodities or labor services concerned have become competitive or if price control would stimulate competition in their production and trading, provided the resource restraints are weak, the supply price elasticity is relatively strong, and they do not impact the national economy and people's livelihood. Instead, the producers and operators should be free to set prices on their own and form prices through market competition. Everything should be done to create the conditions in the next two to three years for the decontrol of all prices that should be decontrolled.

Second, nurture the market system in a hurry. Further open up the commodity market. Break down regional and sectoral barriers. Set up a wide variety of wholesale and exchange markets at different levels. Concentrate on the organization and maturing of markets for capital goods. Make a major effort to nurture the stock exchange, bond market, foreign exchange regulatory market, labor market, housing market, lend rental market, and so on. Over time all capital goods markets should be energized, becoming a pool of running water in the sense that the capital goods can circulate properly in response to price changes and changes in market supply and demand. In addition, we must go all out to build up the infrastructure, particularly the modernization of communications and transportation facilities. In short, create a market system that is unified, competitive, open, coherent, and modern to pave the way for the proper formation of market prices so that they can effectively optimize resource allocation.

Third, improve the mechanism for the formation of market prices. A few commodity prices and service charges must remain under government control. In the case of these prices and charges, we must work hard to find a flexible price-regulating mechanism and establish

a corresponding price-regulating system to review prices at fixed intervals. Enlarge the share of government guidance prices. Give market regulation a bigger role in planned price formation.

Fourth, tackle the creation of an indirect price regulation and control system more aggressively. Create a price regulating fund as well as a reserve system for such key materials as grain, cotton, and sugar. Improve the economic tools at the disposal of the government for regulating and controlling market prices.

Fifth, speed up price law-making. Formulate a "price law," "anti-monopoly law," "law to prohibit improper competition," "notes law," "wholesale market regulations," "futures market regulations," and other laws and regulations dealing with the market and prices so as to spur the institutionalization of enterprise trading behavior and price behavior and guide and protect legal and open competition.

Sixth, continue to strengthen the price supervision system. In response to the needs of developing a market economy, the price supervision and inspection offices in government price departments must combine inspection with services and go about their work in strict accordance with the law. Protect the law-abiding and crack down on criminals. Even more important, they must step up price inspection within the enterprises. In the spirit of "the government liberalizes, the enterprise tightens management," we must improve the price accounting system within enterprises, particularly large enterprises. The enterprises' power to set prices must be used flexibly and successfully.

Finally, it must be pointed out that we must not press ahead with price reform and accelerate the creation of a socialist market price system in isolation. Instead we must coordinate our moves with price reform, banking reform, tax reform, interest rate reform, exchange rate reform, labor reform, wage reform, and social security reform, with one spurring on the others. Also, we must continue to insist on a basic balance between aggregate social supply and aggregate social demand, manage the money supply properly, and prevent new inflation. This is necessary for ensuring smooth progress in price reform.

#### Suggestions To Avoid Economic Overheating

93CE0417A Beijing GUANLI SHIJIE  
[MANAGEMENT WORLD] in Chinese No 6,  
24 Nov 92 pp 14-21

[Article by Qiu Xiaohua (6726 2556 5478) and Liu Qiusheng (0491 4428 3932), General Affairs Department, State Statistical Bureau: "Various Problems in the National Economy Today and in Macroeconomic Regulation and Control"]

[Text] All the country's macroeconomic indicators show a rather strong growth momentum for 1992. Preliminary statistics show a GNP of 1.704 billion yuan for the first

three quarters. Figured at comparable prices, this is a 10.6 percent increase over the same period in 1991. Nevertheless, some problems that will bear watching have also appeared in the course of high speed economic growth. During the coming stage, reform will have to be intensified and opening to the outside world widened. The tempo and timing of macroeconomic regulation and control will have to be handled properly. While maintaining basic overall balance, active efforts will have to be made to channel social demand—particularly the ways in which investment and credit are used—for further optimization of the economic structure and improvement of economic returns.

#### The Character of Today's National Economy and Forecasts for the Year

During the first three quarters, supply and demand grew fairly rapidly, but basic balance was maintained nevertheless. Preliminary calculations show that total supply increased 17.9 percent over the same period in 1991, and total demand increased 22.3 percent. Total supply and demand balanced out, demand exceeding supply by 1 percent, substantially within normal limits. Operation of the economy during the first three quarters may be largely characterized as follows:

(1) High speed growth of industrial production, economic returns rising quarter by quarter. Since the beginning of the third quarter, industrial production has continued to accelerate. Industrial production during the third quarter increased 21.7 percent over the same period in 1991, higher than the respective 18.2 and 18.5 percent growth of the previous two quarters. Township level and above gross industrial output value for the first three quarters totaled 2.0371 trillion yuan, up 19.23 percent over the same period in 1991. Three new changes occurred in the growth of industrial production: First, growth of heavy industry was consistently higher than light industry, heavy industry growing 21.5 percent and light industry growing 17 percent during the first three quarters. Second, industries under all systems of ownership accelerated development, industries other than those under the system of ownership by the whole people growing fastest. During the first three quarters, industries under ownership of the whole people grew 12.3 percent; collectively-owned industries grew 28.8 percent (including a 44.2 percent growth rate for township-operated industries), and other industries grew 47.1 percent. Third, the production and business performance of large and medium size enterprises improved markedly, output value increasing 19.6 percent during the first three quarters.

Simultaneous with the high speed growth of production was a constant improvement in the meshing of production and marketing, economic returns climbing each quarter. The product sales rate was 89.8 percent for the first quarter and 93.8 percent for the second quarter, climbing further to 96.4 percent during the third quarter. The average rate for all three quarters was 93.74 percent, 0.5 percentage points more than during the same period

in 1991. This included a 99 percent increase in the product sales rate of large and medium size enterprises, and a 98.8 percent rate for enterprises under ownership of the whole people for a fine trend of development. The overall economic return index for independently accounting industrial enterprises at the township level and above throughout the country was 78.99 for the first quarter. It increased to 85.7 for the first half of the year, and rose again to 87.75 for the first eight months of the year. This included an index of 99.76 for large and medium size enterprises. The performance of state-owned industrial enterprises within budget suggests a marked upturn in profits and taxes, new advances having been made in reversing losses. Third quarter profits and taxes amounted to 46.4 billion yuan, up 24.6 percent from the same period in 1991 and 8.7 percentage points higher than for the first half of the year. Losses of faltering enterprises, which stood at 37.1 percent at the end of March and 32.5 percent at the end of June, fell to 31.3 percent at the end of September.

Preliminary forecasts call for an industrial gross output value of 2.9 trillion yuan for the year for industries at the township level and above. Figured at comparable prices, this is an approximate 20 percent increase over 1991. If industries at the village level and below are included, gross output value for the year will reach about 3.4 trillion yuan for a more than 20 percent increase.

(2) Agricultural production maintained a steady development momentum. The summer grain harvest set a new all-time high record, early paddy producing a bumper harvest. As a result of a more than 10 million mu decrease in the autumn grain growing area, plus a delay in the sowing season, a drop in the cumulative temperature, and natural disasters in some areas, autumn grain crop output was lower than in 1991. Estimates call for fulfillment of the grain production plan for the year, output totaling about 870 billion jin for substantial maintenance of the 1991 level. One heartening change in grain production was the higher percentage of premium quality grain. Cotton output suffered greatly from drought and insect infestations. Output for the year is estimated at about 5.3 million tons, down approximately 6 percent from 1991. Oil-bearing and sugar-bearing crop output also remained steady or declined slightly. Although farming output remained about the same or was slightly less than in 1991, forestry, livestock industry, and fishing industry output increased steadily. Statistics show an increase in both the number of principal kinds of livestock animals in inventory and removed from inventory for the first three quarters. Hog, beef, and labor output totaled 18.4 million tons, up 11.6 percent over the same period in 1991. Aquatic products output was more than 8.1 million tons, up approximately 7 percent. The afforested area increased and quality improved.

Preliminary forecasts call for a gross output value for the year of approximately 855 billion yuan. Figured at comparable prices, this is an increase over 1991 of approximately 3.5 percent for substantial fulfillment of

annual plan norms. Township and town enterprises developed further even while the rural economic structure was being revamped. Forecasts call for a gross output value for the year that is approximately 30 percent higher than in 1991.

(3) Strong increase in investment in fixed assets. During the third quarter, investment in fixed assets totaled 241.4 billion yuan, up 36.3 percent over the same period in 1991. The main features of this increase were as follows: An increase in investment in existing plants that was faster than the increase in investment in new plants. During the third quarter, investment in renovation and technical transformation increased 40.6 percent. This was 8.2 percentage points higher than the investment in capital construction. Second was a change in the source of investment funds. Investment outside budget increased fairly rapidly, the percentage rising markedly. Of the investment made in capital construction and in renovation and technical transformation during the third quarter, the percentage coming from domestic loans and funds that enterprises raised themselves increased 43.5 percent over the same period in 1991, the total percentage from these sources rising from 67.5 to 73 percent. Meanwhile, the percentage of funds from within budget fell from 13.3 to 10.6 percent.

Preliminary estimates call for a total investment in fixed assets for the year of approximately 720 billion yuan, approximately 31 percent more than in 1991 (including an investment of 495 billion yuan in enterprises under ownership of the whole people, up 36 percent), an amount greatly higher than the 570 billion plan norm.

(4) Domestic markets grew steadily. During 1992, domestic markets showed steady growth in consumer goods sales and a marked rate of increase in investment offerings. During the first three quarters of the year, commodity retail sales totaled 786.1 billion yuan, 14.4 percent more than during the same period in 1991. After making allowances for price increases, the actual increase was 9.2 percent. Urban markets continued steady growth, and rural market sales increased. During the first three quarters, urban market sales increased 17.1 percent, and county level and above market sales increased 12.9 percent in a 3 percent rise over the same period in 1991. Food sales increased steadily, and most clothing sales declined. Sales of goods used in daily life rebounded remarkably. Buying and selling in means of production markets was brisk. During the first three quarters, procurement of the principal means of production by the materials system throughout the country totaled 299.7 billion yuan, up 47.1 percent over the same period in 1991. Sales volume totaled 327.5 billion yuan, up 45 percent.

In response to market changes, changes in the prices of goods also were uneven during the year. By category, retail goods prices remained largely stable, rising an anticipated 4.8 percent during the first three quarters over the same period in 1991. Prices of consumer goods

used in daily life went up substantially, rising 5.5 percent. Prices of means of production in the materials system rose greatly at 10.1 percent. By area, the increase in rural market prices was lowest, but the rise in prices of items used in daily life in large and medium size cities rose 10.4 percent over the same period in 1991. In cities and towns, prices rose 7.9 percent. In rural villages prices rose 3.5 percent.

Preliminary forecasts call for retail commodity sales of 1.080 trillion yuan for the year in an approximate 14.5 percent rise. Retail sales of the means of production in the materials system will reach approximately 400 billion yuan, or about 30 percent more than in 1991. Retail prices for the year will increase 5 percent over 1991. Prices of items used in daily life will rise 6 percent, including an 8 percent rise in cities and towns, 11 percent in 35 large and medium size cities, and 4 percent in rural villages. Prices of the means of production will rise approximately 10 percent.

(5) Foreign economic relations and trade grew rapidly, and the international trade balance was favorable. Further widening of the area open to the outside world, more reform of the foreign trade system, and another favorable turn in the international climate during the year further invigorated China's foreign trade. Customs statistics show exports and imports totaling \$110 billion for the first three quarters of the year in an 18.6 percent increase over the same period in 1991. This includes exports of \$57.5 billion, up 16.2 percent, and imports of \$52.5 billion, up 21.4 percent, exports balancing imports. After allowing for goods for which foreign exchange was neither received nor paid, exports exceeded imports by \$9.3 billion. One marked feature of the lively export trade during the year was the rapid development of border trade and the import-export trade of three kinds of partially or wholly foreign-owned enterprises. During the first three quarters of the year, border trade increased manifold, and imports and exports of foreign-owned enterprises increased more than 30 percent.

The use of foreign capital increased markedly, and international tourism developed rapidly. Between January and September, the use of foreign capital for 28,000 projects was newly approved nationwide, agreements calling for the expenditure of \$36.4 billion for these projects. This was a manifold increase in both the number of projects and the amount of money to be spent on them. The actual amount of foreign capital used, however, was \$11.7 billion, up 52 percent over 1991. The number of tourists visiting China and the amount of foreign exchange earnings from tourism for the first eight months of the year increased 12 and 32 percent respectively over the same period in 1991. A favorable balance of payments was maintained. As of the end of September, China's spot exchange balance was 16.8 percent higher than during the same period in 1991.

Preliminary forecasts call for imports and exports for the year totaling approximately \$162 billion, about 18 percent more than in 1991. This includes exports totaling \$84 billion, up 17 percent; and imports totaling \$78 billion yuan, up 22 percent. The year end national spot exchange balance will likely remain the same as at the beginning of the year or slightly less.

(6) The fiscal budget was balanced, and the scale of credit was kept under control. Fiscal receipts and expenditures show that with improvement of the cycling of the national economy as well as the inauguration of some actions to increase revenues and conserve expenditures, the country's fiscal revenues have grown fairly rapidly. During the first three quarters of the year, government revenues increased 21.8 percent over the same period in 1991 (11.4 percent if comparable figures are used). This is principally the result of an improvement in added value taxes, business taxes, state-owned enterprise regulatory taxes, and import duties. Fiscal expenditures increased 16.4 percent over the same period in 1991. After offsetting receipts against expenditures, receipts were 5 billion yuan more than expenditures versus the situation during the same period in 1991 when expenditures were 5.8 billion yuan more than receipts.

Both the scale of credit and the amount of money put into circulation maintained fairly rapid increase since the beginning of the year; however, implementation since August of the spirit of CPC Central Committee and State Council instructions on greater financial regulation and control, and strict control over the scale of credit and the amount of currency issued in accordance with state plan have been effective. The trend toward increase in the amount of credit has slowed. During August and September, bank credit increased respectively by 2.02 billion and 21.02 billion yuan over the average level for the period May through July. During the first three quarters of the year, bank credit increased 19.63 billion yuan in a 4.95 billion yuan increase over the same period in 1991. The month-end credit balance outstanding was 200.07 billion yuan, up 20.3 percent from the end of the same month in 1991, the rate of increase being about equal to the same period in 1991. The amount of currency put into circulation has continuously increased, 2.96 billion yuan more money put into circulation during the first nine months of 1992 than during the same period in 1991. The main reason is the high speed economic growth of 1992, the increased investment in fixed assets causing more money to be put into circulation, as well as an increase in collective investment in various forms outside plan, which has caused a decline in the removal of money from circulation into savings accounts.

A preliminary forecast calls for new bank credit totaling approximately 360 billion yuan for the year, and a net 90 billion yuan increase in the amount of money in circulation. By the end of the year, the amount of bank credit outstanding and the amount of currency in circulation will be respectively 20 percent and about 27 percent greater than at the end of 1991.

(7) Urban and rural residents' income continued to increase. Total wages during the first three quarters reached 25.91 billion yuan, up 15.6 percent over the same period in 1991, 23 percent of the increase consisting of bonuses. If other income is included, city and town residents' per capita income for living expenses increased 16 percent. After allowing for increases in prices of items used in daily life, the actual income increase was about 8 percent. Peasant income increased. During the first three quarters, peasant cash per capital income was 543 yuan, up 12 percent over the same period in 1991. After adjustment for price rises, the actual increase was 8.5 percent.

A preliminary forecast calls for a total staff member and worker wage bill of 37.9 billion yuan, about 14 percent more than during the same period in 1991. Staff member and worker currency wages will total 2,578 yuan per capita, up 10.8 percent. After adjusting for rises in the cost of items used in daily life, the actual increase will be 2.1 percent. City and town residents' per capita income used to pay for living expenses will be 1,790 yuan. After adjusting for price increases, the actual increase will be about 7 percent. Peasant per capita net income will be 760 yuan. After adjustment for price increases, the actual increase will be about 4 percent.

(8) Major advances were made in reform of the operating mechanism. Reform picked up following the remarks of Comrade Xiaoping during his travels in south China in early 1992. A look at the transformation of enterprise operating mechanisms shows an acceleration of reform pilot projects for the transformation of operating mechanisms simultaneous with perfection of the contract system. In business enterprises, in particular, the pace of "four decontrol" reform accelerated. Today, business enterprise "four decontrol" pilot projects are being run in about 40 percent of such enterprises. By year's end, they will be running in about 60 percent. At the same time, stock share system pilot projects in enterprises have also moved ahead actively. In Shanghai and Shenzhen, the share system is gradually coming of age while quickening development. The Shanghai stock market alone openly issued 53 different A share issues having a face value of 10.17 billion yuan during the third quarter. This was a 10 fold increase over 1991. The B share market has developed rapidly. So far, nine B share issues having a value of \$810 million have been issued and sold out. This is seven times the amount issued in 1991, and the issues have raised more than 4 billion yuan renminbi. The secondary stock market is even more lively. All jurisdictions have begun to invest in housing, real estate development, securities markets, futures markets, social security system building, and reform of the tax apportionment system in some areas. Price reforms have made some more rather large strides. Identical grain procurement and sale prices have just been put into effect, and prices of some basic prices have been further adjusted. In particular, following the decontrol of the prices of some agricultural products and light industrial products, prices of the means of production were decontrolled over

a fairly wide area during 1992. Major advances were also made in transforming the price formation mechanism. In the revised means of production and transportation price control catalogue, the number of the means of production and transportation prices that the state and associated agencies control was reduced from 737 in 1991 to 89. This included 571 items for which the setting of prices was delegated to enterprises, and 22 that were handed over to the control of provincial, autonomous region, and directly administered municipality pricing agencies. In addition, the nationally uniform maximum ex-factory or retail ceiling prices of means of production outside plan, including crude oil, refined oil, processed steel, pig iron, copper, aluminum, zinc, tin, nickel, soda ash, and caustic soda have been abolished. Today, more than 80 percent of commodities in China are market regulated.

Overall, China's economy moved to the fast track during 1992. The pace of reform and opening to the outside world speeded up markedly, total supply and demand were substantially in balance, markets were stable, the people were doing well, and the vitality of the economy increased noticeably showing the economy to be in good shape today, and that the various macroeconomic policies that the State Council has defined in response to the new circumstances to be correct. Preliminary forecasts call for a GDP for the year totaling more than 2.31 trillion yuan. At comparable prices, this is an approximately 11 percent increase over 1991. It includes an approximately 3 percent growth of the primary industry, an approximately 17 percent growth of secondary industries, and an approximately 8 percent growth of tertiary industries.

The main problems in economic life today are as follows: First, a large number of construction projects have been started, too many new establishments have gone into business, and a large amount of money has been put into circulation, all of which impair the overall balance of the economy. Prices of the means of production have risen substantially, and supplies are beginning to fall short of demand in some regards. Second, structural problems are more apparent. Problems in the form of limited market demand for consumer goods exist; while, at the same time, problems with a shortage of resources characterized by shortages and high prices for major means of production, and a widening of the railroad transportation gap have worsened. Third, the problem of belated macroeconomic control is more conspicuous, some unhealthy signs are appearing in the economic order. Superficially, the existence of these problems are an accompaniment to the high economic growth rate, but actually, they reflect the incongruity between the existing economic system and operating mechanism and the building of a socialist market economy.

#### **Views of Various Problems in Current Macroeconomic Control**

With the rapid development of the economy, both the scale of investment and the money supply in China have

grown fairly rapidly, and some ups and downs have appeared in the economic order. Some new changes have begun to occur in the relatively relaxed situation between supply and demand that existed for a time, and shortages have begun to appear in some regards. How to evaluate and analyze these problems correctly holds extremely important significance for judging the situation accurately and for properly understanding the amount of and the opportune time for macroeconomic regulation and control that both maintains sustained high speed economic growth and also avoids serious inflation.

#### **(A) Problems With the Scale of Investment in Fixed Assets**

Total investment for the year will exceed the planned 155 billion yuan for a fairly rapid increase. We feel that the current speed of increase in investment is basically consistent with the growth of the overall economy, but that there have been too many new projects started, the scale of construction is a little too large, and that the pattern of investment is not entirely sensible. These problems will bear watching.

(1) The present high speed increase in investment follows the large retrenchment of the previous several years. To a certain extent, it amounts to a revival. During the period of improving the economic environment and rectifying the economic order during the previous several years, investment demand fell sharply. By 1991, the actual amount of investment was less than what it had been in 1988. During 1988 and 1989, investment increased at an average 12.7 percent annually, an amount lower than the average 13.2 percent growth rate of current price GNP for the same period. Investment in current assets averaged 27.9 percent between 1989 and 1992, and even if investment in fixed assets during 1992 amounts to 725 billion yuan, this is still only about 31 percent of the 1989-1992 figure and still within acceptable reasonable limits. International experience shows that during periods of economic growth, a fairly high investment rate must be maintained.

(2) The relative flatness of consumption exhibited in the operation of the economy at the present stage objectively requires maintenance of a fairly fast speed of investment growth. China is currently making a transition from the sufficient food and clothing stage to the comfortably well-off stage in its economic development. As a result of the limitations that the people's income level, consumption pattern, and the consumption climate impose, as well as an improved financial investment sense, relatively flat consumption exists during the transition period. Since the advent of the 1990s, commodity purchasing power has been used less and less with each passing year, falling from the average 85.6 percent of the 1980s to 79 percent in 1991, and falling further to about 75 percent in 1992. It is estimated that it will fall to about 70 percent in 1993. Unused residual purchasing power is increasing steadily. This requires a faster shift of consumption funds into accumulation funds for full and effective use of idle capital to increase investment to

guide economic growth. At the same time, in readjusting the industrial structure more building of basic industries and infrastructure is required, and the pace of the technological transformation of enterprises must be quickened as a means of strengthening the weak links in the national economy, removing bottlenecks, and laying the foundation for a high rate of economic growth during the 1990s. Therefore, a suitably out-in-front and super speed growth during the present stage is necessary, and it is also consistent with objective economic laws.

(3) Acceleration of reform and opening to the outside world provides the financial conditions necessary for rapid growth of investment. Reform of market orientation has brought about unprecedented high interest in investment all along the line. Investment in stocks and bonds by ordinary people has increased greatly. There has been no defaulting on more than 80 percent of investment that over-fulfilled plan for the year. At the same time, the widening of the opening to the outside world has spurred a great influx of foreign capital, more than \$16 billion in foreign capital having been used in 1992, approximately 40 percent more than in 1991.

(4) The main problems in current investment in fixed assets lie not in the scale of investment but in too large a scale of construction and an irrational pattern of investment.

1. Work has begun on many new projects, and the scale of construction is rather large. Between January and September, construction began on 36,931 capital construction and renovation projects costing 50,000 yuan or more. This was 7,958 more than during the same period in 1991. Newly begun projects accounted for 40.1 percent of all construction projects, up 3.4 percentage points over the same period in 1991. As a result of the increase in new investment projects, which has increased the amount of construction underway, as of the end of September, units under ownership of the whole people had invested 1.2306 trillion yuan in construction, 23.2 percent more than during the same period in 1991.

2. A not entirely rational investment pattern. During the first three quarters, a total of 6.43 billion yuan was invested in new fixed assets, 43.2 percent of it in energy, raw and processed materials, transportation, and posts and telecommunications, the lion's share going into other fields. Among the newly begun projects requiring an investment of 1 million yuan or more, planned investment of 16.34 billion yuan was made in the light and textile industries, machinery and electronics industries, and other industrial projects. This was an 89.1 percent increase over 1991 and accounted for 24.1 percent of total investment. New projects continued to be built for things that the state prohibited and for products in plentiful supply for which there is too much production capacity such as cotton and woolen textiles, cigarettes, and plastic film used in agriculture. Projects for the construction of multi-story public buildings, meeting halls, public accommodations, and institutions showed an increase.

#### (B) The Amount of Credit and Currency Problem

As part of the new rapid economic growth during 1992, the supply of credit and money increased fairly fast. We feel that this trend remains within reasonable bounds at the present time, particularly since the large scale issuance of credit has been brought under preliminary control. Nevertheless, the potential for a considerable delayed affect exists. In particular, the issuance of money on a large scale has not abated. This requires careful regulation and control.

(1) The present expansion of credit and the money supply is based on the high speed growth of the economy; it is an accompaniment to operation of the macroeconomy. Following the important remarks of Comrade Xiaoping during his travels in south China during early 1991, in particular, when every jurisdiction actively readjusted its economic construction and economic development plans, when a new surge was set off in reform and opening to the outside world, and when the demand for currency increased dramatically, existing credit and money supply plans no longer met the needs of economic development.

The 283 billion yuan planned scale of credit and the planned issuance of between 50 billion and 60 billion yuan of currency of early 1992 were based on 6 percent economic growth. During the first half of the year, GNP growth was double plan reaching 12 percent. Consequently, during July the State Council further readjusted credit and currency supply plans. The situation during the past two months shows that the amount of credit may be controlled within the 35 billion to 36 billion yuan readjusted plan, and that the money supply may slightly break the 90 billion yuan mark, but both are basically in line with economic development.

(2) The current credit and money supply also contain some elements for instability.

First, the way in which money is being used is not entirely sensible. Credit used for working capital increased 113.7 billion yuan between January and September 1992, 30.7 billion yuan more than in 1991, climbing from 56.5 percent of total credit during the same period in 1991 to 57.9 percent in 1992. The portion invested in fixed assets fell from 32 to 26.9 percent; and the portion used for credit also fell from 9.2 to 7.5 percent.

Second, the elasticity of demand for funds keeps rising. The elasticity of demand for funds (the rate of increase in funds per 1 percent growth of GNP) reflects the interdependence of economic growth and the need for currency. Estimates suggest that a 1.5 to 2 percent elasticity coefficient is about right at the present stage, but for several years running it has been higher than that at about 2.6. This shows the existence of some not entirely sensible components in the way money is used.

In general, a tightening of the money supply is in the offing. Even though the fairly high growth of credit and

money during 1992 did not ignite any major problems during the year, over the long term, the residue of credit and money of the past several years will continue to exercise an effect that will require a continuous digestion process. If it is not handled well, the sudden appearance of new factors causing an expansion of demand, particularly at a time when the market mechanism is not yet fully in place and when economic levers and legal methods remain incomplete, this latent demand for currency could be translated into real demand, which would be detrimental to economic stability.

For the country as a whole today, the overall price level in the country's markets is relatively flat thanks to relatively flat consumer demand and the relatively low increase in rural market prices. For every month except for April, the rise in the overall price level has been within 5 percent, and the rise for the year as a whole can be controlled within the planned 6 percent. However, in large and medium size cities the trend is toward fairly sharp rise. In 35 large and medium size cities, the monthly chain index of prices during the third quarter averaged a 2 percent rise, the rise in September climbed to 12.3 percent.

Yet another signal of price rises during 1992 is a rise in the prices of the means of production. Prices of the means of production in the materials system have risen month by month, increasing 6.4 percent during the first half of the year over the same period in 1991. The rise continued during the third quarter, exceeding 10 percent. Prices of 77 percent of 70 principal means of production rose, and the degree of rise in purchase prices of the main raw and processed materials, fuel, and power that enterprises use, were also very high. Comparison of August 1992 with the same month in 1991 shows an 11.5 percent rise in purchase prices, including a 15.5 percent rise in the purchase price of fuel and power, an 11.7 percent rise in construction materials prices, a 15.5 percent rise in nonferrous metals prices, and a 17.9 percent rise in processed steel prices. This rise in purchase prices has caused the beginning of a rise in the ex-factory prices of industrial goods, prices rising 6.4 percent in August as compared with the same period in 1991. The rise in ex-factory prices has brought about a rise in retail prices; however, the flatness of the consumer goods market during 1992 has reduced the impact on retail prices for the time being. Generally speaking, structural price readjustments affect a rise in the overall price level. However, if demand is not brisk, even if such price readjustments may not bring about a rise in prices. However, ever since 1991, social demand has shown a marked upturn following several lowerings of savings and loans interest rates, increases in the supply of credit and the issuance of money, the effect of policies for the revival and expansion of the scale of investment in fixed assets. This has spurred the revival of the economy and the high speed economic growth of 1992. The upturn in social demand and the rapid economic growth will inevitably bring in their wake a rise in market prices requiring maintenance of a high degree of vigilance.

#### (C) Problems With the Current Economic Order.

Since improvement of the economic environment and rectification of the economic order, the country's economic order—particularly its commodity circulation order—have improved greatly. During 1992, some new situations occurred in the macroeconomic order, and some unhealthy signs also appeared in some regards. We believe that although the economic order is a matter of macroeconomic management rather than a matter of overall macroeconomic regulation and control; nevertheless, if not properly managed, it can have an impact on the macroeconomy overall.

1. Investment exceeded the budgeted amount. One major problem in investment during the past several years has been the low investment budgets. High actual expenditures, and slow progress on projects has resulted in a large number of unauthorized projects, unfinished projects, and speculative projects. Nowadays between 30 and 50 percent of projects under construction involve investment in excess of budgeted amounts. A Construction Bank survey of 108 projects shows about 55 percent of projects as exceeding budget.

2. Low percentage of product contracts honored. During the first half of the year, 16 of 18 state-controlled products that were checked showed the percentage of contracts honored to be lower than for the same period in 1991, the number honored falling to 88.9 percent.

3. Some unhealthy signs in the commodity circulation order. The trend toward hoarding and reluctance to sell means of production, and the arbitrary raising of means of production prices has become pronounced. Unbridled speculation in share certificates and real estate, and even the selling at a high price of nonagricultural residence registrations has occurred. According to incomplete statistics from the departments concerned, income from the sale of nonagricultural residence registrations during 1992 amounts to more than 20 billion yuan; and income from the issuance of bonds outside plan amounts to more than 40 billion yuan.

The main reasons the aforesighted events occur is that the existing body of plan controls, investment controls, price controls, and the materials distribution and labor assignment systems no longer meet the needs of new circumstances. Meanwhile new systems in keeping with the operation of the market economy have yet to be established or are not yet complete. This is particularly the case in the process of changing from the old economic system to the new when existence of the two-track price system makes it difficult to make the macroeconomic order smooth. Second, the delegation of control authority, which has further strengthened local governments and sectors, urgently necessitates readjustments of the prevailing pattern of interests. Third, the legal system is imperfect and incomplete. For example, a complete body of laws and regulations does not exist. Some major laws and regulations necessary for the building of a socialist market economy have yet to be drawn up. In

particular, where some laws and regulations do exist, they are not enforced or the law is not rigorously enforced. It should be said that in a new situation in which the old and the new system co-exist, some disorderliness in the economic order is unavoidable. The key to solving this problem lies in correct guidance and speeding up the changeover of systems, rapidly building a new economic order and attendant macroeconomic control methods.

(D) The problem of greater resources limitations in the current macroeconomic operating process.

In China's economic life, it frequently happens that accompanying rapid development of the economy is a likelihood that resources will exert limitations. With the high speed growth of the economy during 1992, a tense situation resulting from a shortage of resources has reappeared. This has shown up in three regards as follows: (1) A tightening up of the supply of means of production, a decline in amounts in inventory, and a substantial increase in prices. (2) Further intensification of the transportation shortage. Today, railroad cars meet only 66 percent of demand on average, and the problem of more passengers that transportation can accommodate is serious. (3) Energy, particularly electric power, is in short supply. In many places the number of dam gate closing that limit power generation have increased.

We feel that the present shortages must be correctly evaluated.

First, the present shortages of resources are an inevitable result of high speed economic development. Acceleration of economic development is the main theme in China's economic life during the 1990s. It is estimated that China's resources today can support an economic growth rate of between 8 and 9 percent. When the growth rate goes higher than this, shortages ensue. Predictably some shortages will occur with an economic growth rate of approximately 11 percent in 1992. Furthermore, signs of shortages may increase people's sense of urgency about strengthening weak spots, making them reform prices and plan investments. During a period of economic take-off, in particular, a policy of appropriate tightening of resources helps in the fullest effective use of resources and reduces idle resources.

Second, the current shortages are only limited; no general shortages have appeared. First, a supply of consumer goods greater than demand has not changed; a fairly ample supply of major consumer goods is in inventory. As of the end of August, the total value of goods in storage was sufficient for more than four months of retail sales. In approximately 90 percent of markets today, the supply of consumer goods is greater than or equal to demand. Second, industrial inventories remain at a fairly high level. As of the end of August, inventories of industrial enterprises at the county level and above were worth 58.3 billion yuan more than at the beginning of the year. Third is plentiful foreign exchange. As of the end of September, the country's spot exchange was sufficient to

pay for nearly four months worth of imports, and higher than the two month warning level that most countries maintain.

Third, limits on macroeconomic operation and limits on the allocation of resources must be just right. For bottleneck industries and products for which the demand exceeds supply, two different scenarios may apply: In one, total demand is slightly greater than total supply. Since this takes place within the limits of socio-economic dynamic balance, it may be regarded as basically balanced, or termed "tight balance." In the other, total demand is much higher than total supply, thereby causing a serious imbalance between supply and demand. In China's economic life, both situations have recurred in cycles, and they alternate to a certain extent. We believe that inasmuch as the present shortages in various regards in China's economic life follow in the wake of several years of improving the economic environment and rectifying the economic order when more resources were available than were used, such as between 1989 and 1991 when 12 million tons more processed steel and 56 million tons more cement was available than was used, which ameliorates the degree of the shortages, China is still in a "tight balance" situation. Beginning in 1993, these elements will no longer apply. If development proceeds at the present pace, serious imbalance may ensure. This must be prevented from happening.

**Several Suggestions on Future Direction of Macroeconomic Regulation and Control Policy**

Analysis of the actual present operation of the economy, taking full account of all the various favorable conditions and limiting factors, gives us reason to believe that China's current aggregate problem is still not extremely pronounced, but that structural problems are beginning to become serious. Different future macroeconomic regulation and control policies may yield two different results as follows: One is a policy focus on expansion of the aggregate to spur fairly high economic growth and not very rapid structural optimization. Although the result of such a policy might be high speed growth of the economy over the next year or two, accompanying it might be greater shortages of things such as transportation, an excessive expansion of credit and investment, and curtailment of consumer goods markets resulting in termination of the economic high speed growth process and rapid descent into a trough. The other is a policy focus on shoring up weak places in the economy and increasing reform an opening to the outside world to gain fairly high speed economic growth while making major advances in optimizing the structure. The result of such a policy would be a better combination of short-term and long-term development and the attainment of both system changes and economic development that would make the allocation of resources more rational and the economic cycle more benign, thereby spurring the economy to move a new step upward from a foundation of modernization. Clearly, the second choice is the right one. Therefore, we recommend the following:

1. Small regulatory actions to ensure substantial balance between total supply and demand. The fourth quarter is frequently a peak period of increased demand. Unless proper regulation and control methods are taken to bring about a slight tightening, the gap in which demand is greater than supply during 1992 may go beyond the normal level by 2 percentage points or more, and may also produce a detrimental effect on aggregate balance in 1993. Therefore, diverse methods must be applied to regulate and control credit and the amount of money in circulation must strictly accord with adjustment plans. In addition, the beginning of work on new projects must be properly controlled, fewer or no more construction projects begun that are not in keeping with the shoring up of weak spots in the economy. Trends suggests that relatively flat consumer demand will continue to characterize the economy of 1993, social commodity purchasing power possibly accumulating to as much as 500 billion yuan. It will be necessary to maintain a scale of investment consistent with about 9 percent economic growth, for which a lower limit controlled at 850 billion yuan is recommended to stimulate a smoother cycling of the economy. At the same time, energetic efforts must be made to open up rural markets to promote the steady development of consumer goods industries, the key to which is efforts to increase peasant income.

2. Greater structural readjustments to hasten construction that remedies shortages. Given a fixed aggregate amount of investment, close attention must be given to how it is used. Not only must state investment be mostly used for the shoring up of weak links in the economy such as transportation and energy, but investment must be being guided according to benefits received, more use made of economic levers to guide the investment in these fields of funds available throughout society. It is recommended that beginning in 1993, that the state invest in these areas but make no further investment in processing industries. It should concentrate the needed financial resources on construction that remedies shortages in the economy. One-third or more of local government investment should be used for the building of infrastructure and basic industries so as to ease as quickly as possible the bottlenecks that limit high speed growth. Simultaneous with the accelerated building of transportation, specific actions for development of tertiary industries should be drawn up with all possible speed, mostly relying on the effects of decontrol and invigoration policies and reliance on market forces to attract funds from the public and from abroad to service industries, the government mostly limiting itself to unified planning. The share system pilot project pace must be speeded up to encourage the mergers of enterprises across industry lines, across regional lines, and across sectors, courageously introducing survival of the fittest competition mechanisms to spur the rational flow and optimum organization of everything that is available.

3. Active and well-founded promotion of various reforms to speed up the establishment of resources allocation methods based on the market. Firm attention

must be given to associated reforms, emphasizing regulations to bring about the transformation of enterprises' operating mechanisms. First, the government's functions must be changed to reduce direct government interference in microeconomic activities, the organizational and guiding role of industrial associations vigorously strengthened for greater indirect regulation and control. Second is speedier development of unified markets nationwide, speedier economic legislation and the building of all sorts of market intermediary organizations, and the establishment of a normal commodity circulation order, efforts made to solve problems with jurisdictional divisions and the economic blockading of one jurisdiction by another. Third is the continuation of price reform. The decontrol of short distance railroad transportation prices is suggested, all jurisdictions should be encouraged to work actively to create conditions for a phased decontrol of agricultural and sideline product prices including grain, as well as to speed up the merger to a single track of double track prices of important means of production, thereby eliminating hidden dangers that give rise to an abnormal commodity circulation order.

#### Article on Pushing Economy to New Stage

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[Article by Lu Dong (0712 2639): "Seize the Opportunity To Push China's Industrial Economy to a New Stage"]

[Text] After 14 years of reform, China started moving toward the socialist market economy. Due to influences from the product economy period, however, old patterns are still with us—either in ideological concepts, policy measures, or in methods of business operation. Therefore, to push China's industrial economy to a new stage, we must first of all emancipate the mind, transform the concept of the product economy into that of the commodity economy, and change the concept of the traditional planned economy into that of the socialist market economy; that is, we must guide practice and solve practical problems with ideology that conforms with the socialist market economy. Judging from the present situation, to implement the policy of emancipating the mind in practical work and promote faster and better growth of China's industrial economy, we must concentrate our efforts on properly solving the following ten problems:

#### I. Learn To Apply the Market Mechanism

The 14th CPC National Congress clearly pointed out that the objective of China's economic structural reform was to build the socialist market economy system. The establishment of such an objective is both a scientific summary of practical experiences on China's reform and opening up and a new task which requires our study and solution through extreme efforts.

Two unhealthy tendencies in China's industrial production have appeared many times in the past. First, production one-sidedly concentrated on output value and output. Taken as a whole, products and finished products were overstocked in large numbers for a period of time, while at the same time commodities needed by the market suffered shortages. Second, there was excessive and redundant construction, which resulted in wasted resources and idle productive forces. In the past we tried to reach a balance between production and demand and effect a rational allocation of resources by relying on the "visible hand" of planning, yet we did not achieve the desired results in practice. Of course, the reasons were many, but the most important point was that planning was divorced from market demand. The practice of China's reform and opening up has shown that the growth of the market economy and the establishment of the market economy structure under the socialist system are objective requirements for emancipating and developing productive forces. This objective of reform seeks to enable the market to play a basic role in resource allocation under macroeconomic regulation and control by the state and to enable the economy to follow the requirement of the law of value, the law of competition, and the law of supply and demand. It seeks to bring into play the role of the market as the storehouse of economic information and its ability to regulate economic operations flexibly and effectively. It seeks to urge enterprises to constantly improve technology, save resources, enhance labor productivity, and then proceed to build up an economy characterized by improvement in quality, conservation of resources, and scientific and technological progress, thus fundamentally solving the problems of structural unbalance and low performance in China's economy and changing China's situation of extensive industrial management.

According to the spirit of the report made by Comrade Jiang Zemin at the 14th CPC National Congress, in order to build the socialist market economy system, we must take transforming enterprise operational mechanisms as the basis, fostering the market system as the foundation, intensifying distribution and social security system reform as the guarantees, and transforming government functions as the crux of the matter. These are arduous and complicated examples of social systems engineering, and they all require meticulous work over a long period of time and complimentary reform in many fields. To push industrial production to a new stage, we must learn to apply the market mechanism, establish the idea of large production, large market, and large circulation according to the requirements of the socialist market economy and with market demand as the guide, and must truly run production on the basis of market demand.

It is equally important for government economic departments and enterprises to learn how to apply the market mechanism and to firmly establish the idea of the market. The emphasis in transforming government functions and strengthening macroeconomic management

should be placed on market regulation and control. Efforts should be concentrated on fostering and developing a unified, open, and competitive socialist market system. For enterprises to transform their mechanisms and truly become legal persons that enjoy operational decisionmaking powers and assume sole responsibility for their profits and losses, entities of self-development and self-restraint, and the principal element of market competition, we must thoroughly change the habit of "looking for the mayor instead of the market," must free ourselves from dependence on government departments in charge, and must independently organize our own production and management according to market demand. Enterprises should study both actual and potential demand in the market, should both face the market and develop the market, and should even guide the market. We must change the past idea of attaching importance to production and underestimating sales, should strengthen the job of management and sales, and should expand the marketing contingent. Some enterprises have transferred scientific and technological personnel to strengthen their marketing teams and have linked sales with technological development and technological services. We should draw on and publicize their experiences.

At the present stage, there are two aspects of market development which represent potentialities and superiorities and which need to be further tapped and brought into play. First, the market for industrial products has not been completely opened up in rural areas, which have 900 million inhabitants. Enterprises should produce according to the needs of the peasants; commerce should organize industrial products down to the countryside; and the departments concerned should open up commodity circulation channels in rural areas by every possible means. Moreover, they should vigorously develop the rural economy, increase the peasants' income, and enhance purchasing power in rural areas. Second, the international market must be developed. The export value of China's industrial products occupies a very small proportion of the world's export volume. We should take full advantage of China's superiority in low labor costs and should strive to expand exports. Large backbone enterprises should be given greater decisionmaking powers in foreign trade and should be allowed to participate directly in international competition—from import and export activities to organizing transnational companies.

## II. Highlight the Position of Scientific and Technological Progress

Since the Third Plenary Session of the 11th CPC Central Committee, following the idea put forward by Comrade Deng Xiaoping that "science and technology are primary productive forces," China has carried out the policy of science and technology facing economic construction and economic construction relying on science and technology; has combined scientific research with production on a preliminary basis, and has yielded gratifying results. On one hand, advanced technology projects have

been imported from abroad by the thousands, and new techniques, new technology, new products, and new materials have constantly emerged, all of which have pushed China's industrial technological level onto a new stage. Moreover, enterprises have stepped up the strength of the scientific research organizations affiliated with them, have replenished the contingent of technological development, and have strengthened technological cooperation with scientific research departments. On the other hand, scientific research organizations have also plunged themselves into the major battlefield of economic construction, have set up quite a number of high-tech campus zones and new-tech enterprises, and enterprises full of vitality and new high-tech products have emerged in large numbers. We should also understand, however, that it is still quite common for industrial enterprises to be unaware of scientific and technological progress and to lack enthusiasm in concentrating on scientific and technological progress. Distinct and latent money loss are serious problems in many enterprises. The most important reason is that they have not realized the gigantic role of scientific and technological progress and have not looked upon it as their life-blood, and therefore they lack products that are capable of capturing a market.

On the whole, there are three ways to promote industrial technological progress and push the technical level of existing enterprises to a new stage: First, uphold the combination of scientific research with production and independently develop new products, new technology, and new techniques to transform existing enterprises. With existing large enterprises (groups) as the principal part, draw scientific research organizations and institutions of higher learning into enterprises and realize the integration of scientific research with production, or with scientific research organizations as the principal part, develop new high-tech by self-run or jointly-run enterprises and realize industrialization by turning as soon as possible scientific research achievements into actual productive forces. Second, import advanced technology and equipment from abroad, upgrade the starting point of technological progress, and narrow as much as possible the gap between China and the advanced level abroad. Third, bring in new high-tech, and change China's industrial technological structure by running joint ventures with businesses overseas. Provinces, municipalities, and cities where large and medium enterprises are concentrated should have an overall program and arrangement for technological progress.

To promote industrial technological progress, it is also necessary to properly solve the problems of structure and policy. First, it is necessary to have a specific policy for science and technology enterprises that are jointly run by scientific research organizations and production departments, and we should no longer manage them using the original techniques for managing state enterprises, nor should we stipulate the administrative grade of these enterprises, so that they can operate according to new operational mechanisms from the very start. Moreover,

it is necessary to attach importance to compensating scientific research achievements and to carry out the policy of transferring scientific research achievements with compensation. Second, it is necessary to increase the remuneration of scientific and technological personnel. The income of scientific and technological personnel abroad is three to four times that of ordinary staff and workers, and there is not much difference in China between the income of scientific and technological personnel and that of ordinary staff and workers. This can hardly embody the principle that complicated labor is equal to the multiplication of simple labor. In a certain sense, the rise and fall of state-owned enterprises lies in whether they possess a group of scientific and technological personnel and can bring their role into full play. Third, it is necessary to further increase the funds available to enterprises for technological development. The expenditure of large and medium state enterprises for technological development in 1991 was equivalent to only 1.39 percent of the income from product sales. For some large corporations overseas the proportion is generally six to eight percent, and for some it even reaches 20 percent. That proportion is the outcome calculated on the basis of the spending on actual needs, which is different from the proportion laid down beforehand in a unified way by the financial department in China. Enterprises which drew extra profits were treated as "violators of the financial system." Because science and technology are primary productive forces, expenses for technological development should occupy a certain portion of production costs; restrictions on enterprises to draw technological development expenses should be released; and enterprises should be allowed to apportion technological development expenses into cost according to production need and their bearing capacity. Fourth, it is necessary to further bring into play the market mechanism's role in encouraging technological progress. To organize a coordinated process of tackling key problems under leadership and in a planned way is an important aspect for promoting industrial technological progress. More importantly, however, is to enable enterprises to build up the mechanism to concentrate on technological progress of their own accord, rather than relying on the external push by government departments. The key here lies in competition and in pushing enterprises into the market.

### III. Transform the Operational Mechanism of Enterprises Owned by the Whole People

The basis of transforming enterprises' operational mechanisms is implementing enterprise's decisionmaking powers in operations. Early in December 1978, Comrade Deng Xiaoping pointed out in his talk entitled "Emancipate the Mind, Seek Truth From Facts, and Look Forward United as One": "Power in China's economic management system is too centralized. We should boldly delegate power to the lower levels in a planned way; otherwise it will be unfavorable to bringing into full play the initiative of the four aspects of the state, localities, enterprises, and individual laborers, and also unfavorable to carrying out modernized management and

heightening labor productivity. Localities, enterprises, and production brigades should be allowed to enjoy more decisionmaking powers in management." He stressed that: "At present, the most pressing task is to expand the decisionmaking power of factories, mines, other enterprises, and production brigades." Over the past decade, in invigorating enterprises, efforts have invariably been made in the area of enterprises' operational decisionmaking powers. "The Provisions on Transforming the Operational Mechanism of Industrial Enterprises Owned by the Whole People" promulgated by the State Council last year has further made explicit stipulations on that issue. Enterprises should study "The Provisions" conscientiously, should properly use the decisionmaking powers it grants, and should learn to protect enterprises' operational decisionmaking powers through the law. Government organizations should even more conscientiously transform their functions, straighten out relations, streamline administration, improve efficiency, and create a favorable external environment for enterprises.

Implementing "The Provisions" is the focal point of the current economic work, and we should seize hold of it and spare no effort in carrying it out. Judging from our investigation of the previous period, the following two issues should attract our attention:

First, the issue of enterprise reinvestment capacity. At present, enterprise have very few funds in their possession, as 80 to 90 percent of enterprises' net income is delivered to the higher authorities through taxes, profits, fees, and coupons; the drawing of depreciation and development fees is confined to a very low level; and the funds left for enterprises to use for reinvestment are very small. Without a reinvestment capacity, it is difficult for enterprises to make use of operational decisionmaking powers. The options which enterprises face are: Without inputs, enterprises will collapse; if they want to reinvest funds, they can only rely on bank loans. For the new production capacity and performance created by loan investment, the former is identified as belonging to the state, and the great majority of the latter will be taken away. Foreign funded enterprises, township and town enterprises, and even high-tech enterprises, school-run enterprises, and welfare enterprise are more invigorated than state enterprises for several reasons: Preferential policies of several years of exemption from taxes and several years of reduction of taxes have been carried out for these enterprises, and depreciation and development fees can be drawn independently according to production needs. These enterprises have the capacity of self-compensation and self-development, and they can borrow and repay bank loans by themselves. Because state enterprises do not have such mechanisms, it becomes increasingly difficult for them to repay loans. There are also similar problems with floating funds. In summing up both the positive and negative experiences over the years, to enable state enterprises to maintain vitality, it is necessary to readjust the distribution relations between the state and the enterprises and build up

the enterprise mechanism for loan repayment by increasing the drawing of depreciation and development fees as well as the level of profit retention.

Second, the mode of enterprise operations. To transform enterprise operational mechanisms, various localities have made active explorations and have adopted many operational styles. Judging from the situation of most of the enterprises at present, however, they are continuing to improve the contract-based enterprise management responsibility system. The emergence and development of the contract-based system is the objective requirement of economic development and enterprise reform. The contract-based system suits China's current situation of unbalanced economic development and the immense variety in enterprises' situations. In his talks during his south China tour, Comrade Deng Xiaoping pointed out: "The basic policies of reform in the city and country should remain stable over a long period of time. Of course, with the development of practice, whatever requires improvement should be improved, and whatever requires mending should be mended, but on the whole, we should be firm and unshakable. It will be acceptable if there are no new ideas, but we should not change; nor should we give people the feeling that policies have changed." Policies such as the contract-based system, which has been proved by practice to be favorable to invigorating enterprises and enhancing national strength, should continue to be upheld, improved, and developed.

A number of state enterprises have been selected in Shanghai Municipality to follow the ways of foreign funded enterprises: In policy, measures are enacted to lower the tax rate and increase depreciation and development fees; in relations between the government and enterprises, the government no longer directly manages enterprises, which are allowed to make their own operational decisions; management within the enterprise implements the systems of labor, personnel, distribution, finance, and accounting of foreign funded enterprises that are standard international practices. This may be one of the ways of invigorating enterprises, and we should continue making experiments and constant improvements.

It is necessary to experiment with the shareholding system, but implementing the shareholding system is not the complete solution to the issue of enterprise operational mechanisms. Practice in some enterprises has shown that, if shareholding system enterprises follow the original set of policies and management methods of state enterprises, it is still difficult for them to become invigorated.

#### IV. Strive To Improve Enterprises' Economic Performance

Although we are currently seeing some improvement in enterprise performance, it is still very low when taken as a whole, and the problem of financial loss is still quite serious.

There are many reasons for low enterprise economic performance and serious distinct and latent money loss. Apart from changes in prices, exchange rates, interest rates, and other external factors, the fundamental cause is high consumption, low quality, and increased costs. Therefore, to improve the enterprises' economic performance, viewed from the situation within the enterprise, efforts should be made to properly solve the following three problems:

First, improve quality. According to statistics released by the relevant department, approximately over 300 billion yuan is wasted each year because of low quality. With the establishment of the socialist market economy, constant progress in science and technology, and the improvement in the people's living standard, the people's requirements for product quality get higher and higher, the pace of renewal of products speeds up continuously, and competition becomes unprecedentedly intense. Under such circumstances, only when enterprises turn out products of high quality, broad variety, and low cost can they remain invincible in competition and can they constantly improve their economic performance. Constantly improve the quality of products is an eternal theme of the industrial economy.

Second, save living labor. At present, surplus personnel generally account for about one-third of the total in state enterprises. For one reason or another, these surplus personnel cannot be transferred, and this not only harms enterprise efficiency and performance, but also makes enterprises bear heavy burdens which should be borne by the government. Under the impact of comparison psychology, enterprises still must increase the income of staff and workers who make no performance, and they still have to pay bonuses, even though they are losing money. Making profits should be the enterprises' objective. This objective is forced to give way to the objective of supporting people, and enterprises are regarded as places for the arrangement of jobs, and some enterprises are even run as "welfare institutions." To enhance enterprise labor productivity in real earnest, it is necessary to make up our mind to overcome the problems of multiple objectives and using too many people. Apart from some public undertakings, special industries, and special enterprise, state enterprises in general should achieve a single objective. In judging an enterprise, we should use economic performance as the only criteria. Surplus personnel should be transferred by running tertiary industry. We must intensify the reform of enterprise labor, personnel, and distribution systems, and must link the immediate interest of the operators, staff, and workers closely with the enterprise's interest. Distributions for staff and workers should be made according to the fruit of their labor, and operators should be appraised and used based on their management achievements, thus bringing the competition mechanism into enterprises.

Third, save materialized labor. China's total industrial consumption rate has reached 72 percent, 7.8 percentage points higher compared to that of 1978. How can society

bear such a high consumption rate of material goods, and how can we push industry to a new stage? Great efforts should be made to practice economy, because only by lowering too high a consumption rate can we improve economic performance. To reduce consumption, relying on technological progress is of primary importance. China's present equipment efficiency and utilization rate is too low, and consumption resulting from backward technology is also too large. There exist huge potentials for energy saving and consumption reduction. Furthermore, we should rely on strict and scientific management, complemented by a corresponding award policy.

#### V. Vigorously Develop Township and Town Enterprises

Without industrialization in the rural areas, China cannot truly realize its industrialization. Since reform and opening up, China's township and town enterprises have experienced great development and have found a realistic road for industrialization in rural areas. The development of township and town enterprises has not only absorbed a large number of surplus labor forces in the rural areas, increased peasant income, enlarged the rural market, but has also promoted the integration of the workers and the peasants, has reduced the differences between the city and the country, and has sped up the integration of the city with the country. It should be realized, however, that the development of township and town enterprises is still very unbalanced, and vigorous efforts should be made to promote the development of township and town enterprises, particularly in the western part of China. On developing township and town enterprises, it is likewise necessary to emancipate the mind, and we need a new understanding of some of the traditional ideas of the past.

Arduous and meticulous work is required to develop township and town enterprises. In recent years, various localities have accumulated many fine experiences in developing township and town enterprises. First, develop a year-round grand commodity fair in the rural areas. A grand fair is a big commodity economy school for the rural areas. Not only can it renovate the peasants' ideas and heighten their consciousness of the commodity economy, but it can also spur on a large area and bring prosperity to the people there. Second, with economic interest as the common link, organize urban backbone enterprises to establish fixed relations and help township and town enterprises. Third, appropriate a particular amount of financial resources to be used as funds for development of township and town enterprises and give them preferential treatment in policy and taxes. In areas where the development of township and town enterprises lags behind, we should seize hold of the key villages and townships where key enterprises are located and should bring along the ordinary by representative examples. Fourth, arm township and town enterprises with advanced technology. Fifth, to develop township and town enterprises, follow the principle of the collective, joint-households, and individuals participating together, so that funds can be raised from many quarters.

Moreover, adequate attention should also be given to the development of industry in small and medium cities and to that of country-run industry. To speed up the development of industry in cities and counties, the key lies in handling well the relations between finance and enterprise potential for future development, and in carrying out the policy of releasing water to raise fish and building up financial resources. The practice of "taxes to ensure financial revenue, and profits to invigorate enterprises" introduced in some localities merits our attention and popularization.

#### VI. Strengthen Ourselves by Opening to the Outside World in All Directions

Since the Third Plenary Session of the 11th CPC Central Committee, China has carried out the policy of opening to the outside world; thousands of projects of advanced technology have been imported; and thousands of foreign funded enterprises have been set up, which have promoted China's industrial technological progress and management progress by an extremely great extent. Import and export trade has also experienced major development.

To push industry onto a new stage, it is necessary to further expand opening to the outside world. The socialist market economy is an open economy. If Chinese products want to enter the international market, products of various countries in the world are bound to come into China. In the increasingly intense international competition, the growth of China's industrial economy faces severe challenges. We should have a sober understanding of this situation.

At present, under the push by special zones and coastal open cities, there has emerged in China a new pattern of all-direction opening up along sea coasts, river, boundaries, and in the interior. The final goal of opening to the outside world is for socialism to win superiority over capitalism by comparison. We should boldly absorb and draw on the experiences of all civilized achievements created by human society, absorb and draw on the experiences of all advanced patterns of operation and ways of management that reflect the law of modern socialized production of various countries in the world today, including those of developed capitalist countries.

We should strengthen ourselves by opening to the outside world. Opening to the outside world can make up for the insufficiency in construction funds, can increase government taxes, can increase employment opportunities for workers, can glean more information from the international market, and can promote the development of foreign trade. All these are conducive to developing and strengthening China's economy. While importing advanced technology and management, China's industry should also do a good job in digestion and absorption in real earnest and should go on advancing and blazing new trails. Especially in the area of technological imports, it is necessary to carry out integrated management of import, digestion, absorption, popularization, and blazing new

trails. We must actively create the appropriate conditions, strive to transition gradually from import to independent development in the realm of certain advanced technology, build up technological superiority with China's own unique characteristics in international competition, and shift from technological transfer to technological export.

#### VII. Strengthen Infrastructure Construction

Vigorously strengthening infrastructure construction—such as communications and transportation, energy, and telecommunications—is of great importance for pushing industry to a new stage and for ensuring a new round of high-speed growth and potential for future development in China's economy. To strengthen construction of the infrastructure, the state has taken measures and carried out a preferential investment policy, has increased bank loans, has built up construction funds for coal, electric power, oil, and railways, and has carried out a general contract of input and output for the whole industry, to guarantee that the needs of key construction projects will be fulfilled. Besides, the emphasis should be put on solving the following three problems:

First, quicken the pace of price reform, change the low price situation for basic products that lasts for a long period of time, and gradually build up a standardized market price formation mechanism. We must overcome the obstacles in price reform. If we cannot do so, it will be difficult to overcome the contradiction between current price policy and industrial policy, and it will be difficult to attain the goals of promoting the growth of basic industries and inhibiting too high consumption of energy and raw materials. In the course of price reform, it is necessary to take effective measures to save energy and vigorously lower consumption. These are the most important measures for improving the bearing capacity of price reform.

Second, mobilize and bring into play the initiative of the government at various levels, raise funds from all quarters, and invest them in infrastructure construction. Apart from key construction under overall arrangement by the central authorities, localities are encouraged to delegate road maintenance to the road authorities, delegate electric power maintenance to the electric power authorities, delegate telecommunications maintenance to the telecommunications authorities, introduce ways of running mines and factories jointly across regions, raise funds by themselves, and strengthen the construction of basic industries and infrastructure.

Third, draw on foreign investment in the construction of infrastructure. The construction of basic industries and infrastructure involves large investments and long construction periods, and they should be important areas for drawing foreign investments in cooperation and development. Preferential measures should be taken within the range allowed by government policy to encourage foreign businessmen to make investments in these projects.

### **VIII. Transform the Government's Economic Management Functions**

A socialist country has economic management functions, but management of the economy by the state does not necessarily mean direct operation of enterprises by the government.

Since reform and opening up, enterprises' operational decisionmaking powers has been expanded to a certain extent, but no basic transformation has been effected in the relations between the government and the enterprises. Enterprise decisionmaking power in the areas of investment, product pricing, product sales, labor and personnel, and wages and distribution have not actually been put into effect, and enterprises still cannot free themselves from the position of being appendages of the government. When government departments are busy with enterprise operations, enterprises will not be in a position to make their own operational decisions. The more the government exercises control, the more rigid the enterprises are run.

To meet the requirements of the socialist market economy, it is necessary to transform as soon as possible the government economic management mechanism under the product economy system. This requires government economic management departments to concentrate their efforts on fostering and improving the market system, and on collecting and spreading economic information; to build up a macroeconomic regulation and control system favorable to strengthening enterprise vitality and to the orderly operation of the economy; to study economic policies and work out an economic development strategy; to build up and improve the social security system; to develop the relevant public facilities, public undertakings, and reduce enterprises' social burdens. The government generally no longer participates in the direct operation of enterprises. It must take the road of loosening the grip on enterprises and must let them make their own operational decisions. The dialogue between the government and the enterprises generally can go through trade associations representing the enterprises and other media organizations. Moreover, the role of specialized organizations, such as accountants, lawyers, supervisors, and inspection organizations, should be brought into play.

### **IX. Further Bring Into Play the Initiative of Localities and Enterprises**

The realization of industrial modernization is an undertaking of the masses of the people themselves, and we must mobilize all positive factors and bring into play the initiative and creativity of various areas to work toward this goal. In recent years, one of the experiences of speedy development in coastal provinces is that they dare to develop and explore, dare to practice, and dare to go before others. If we wait for arrangements by the higher authorities on all matters, dare not proceed from the actual need of developing the productive forces and break away from impractical and outdated conventions, and dare not overstep the mines, we will surely let an

opportunity slip away and will delay development. To reform is to take the path our forerunners have not taken. As long as it is favorable to developing the social productive forces, enhancing national comprehensive strength, and raising the living standard of the people, we should boldly try. For matters on which the central authorities have worked out policies, we should make the best use of them; for matters on which no explicit policies have been worked out, we should not wait either—for things that have no precedent, it does not mean that we can do nothing about them. Under the unified policies of the state, we should proceed from the practical needs of local areas and local enterprises and should do creative jobs on our own. If we engage in the socialist market economy, competition will inevitably be intense. In the face of competition, whoever changes their mind fast and well and whoever has a stronger consciousness of development and blazing new trails, that individual will run in the forefront.

### **X. Human Resources Decide the Rise or Fall and Success or Failure of Our Undertakings**

The establishment of the socialist market economy system requires fostering a generation of qualified economic management personnel who have both modern economic and technological know-how and the spirit of innovation, who are good at grasping the building of the socialist spiritual civilization, and who are capable of opening up new situations. We already have an experienced contingent of economic management cadres, but many people still lack experience and knowledge about the socialist market economy, and they need to change their minds, find new understanding, and study once again. Moreover, it is necessary to make good use of a generation of new people who have grown up through practice, who dare to develop, and who have practical experiences in reform and opening up to be the backbone of the contingent of economic management cadres.

We already have a group of enterprise leaders who can highly effectively organize and command production and management, but they need further expansion to truly build up a mighty contingent of entrepreneurs who suit the requirements of the socialist market economy. For them, we should not use the criteria and ways for judging and appointing administrative cadres, but should test their working achievements in production and management. It is necessary to implement the director responsibility system and gradually build up the image of socialist entrepreneurs and raise their social status, so that they are respected by the people.

It is an arduous and glorious historical task that the times have entrusted to the Chinese people to speed up industrial development and reform and opening up and to strive to push the economy to a new stage after every few years. We should conscientiously study the spirit of

the 14th National CPC Congress, should seize the opportune time, should continue to march all the more resolutely along the road opened up by the Third Plenary Session of the 11th CPC Central Committee, and strive to go faster and better.

## PROVINCIAL

### Guangdong Goals for Future Economic Development

93CE0461A Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 15 Mar 93 pp 41-43

[Article by Huang Liren and Fu Xiaoping of the Guangdong Provincial Commission of Foreign Economic Relations and Trade: "Guangdong Province Develops Strategy for Diversified Market"]

[Text] Comrade Deng Xiaoping's inspection tour in south China imposed an even higher demand on Guangdong's economic development that it must catch up with the "four little dragons" in Asia in the next 20 years. Thus, Guangdong must register an average growth rate of 16.9 percent per year in foreign trade and export business. With the continuous expansion of foreign trade and export business, where is Guangdong's market? This will affect not only the existence and development of enterprises in foreign trade, but also the attainment of Guangdong's strategic goal for future economic development.

#### I. Review of Guangdong's Strategy in Opening Up Export Market

In 1979, the party Central Committee and the State Council gave the green light to Guangdong to "implement special policies and adopt flexible measures" and advance ahead of other areas in carrying out reform and opening to the outside world. For the past 14 years, Guangdong Province has gradually fostered an export-oriented guiding principle for economic development, energetically used both domestic and foreign natural resources, opened up domestic and foreign markets, mastered two sets of skills in developing the economy, and continued reform of the foreign trade system. Thus, it has formed the guiding principle of "one central task, two systems" for the development of the strategy in promoting foreign economic relations in Guangdong. That is to regard earning more foreign exchange from exports as the central task, while establishing the export and production system by using foreign capital and importing technology and the international marketing system in coordination with Hong Kong and Macao to meet the needs of the world. It has developed an international marketing strategy of "connecting three points into a line" (Guangdong - Hong Kong - foreign countries) in opening up the international market. Following the political and economic changes in the world and the rapid development in promoting foreign trade in Guangdong after 1990, Guangdong has formed a new strategy in opening the market. Its central task is to place

emphasis on key projects, promote diversification and open to the outside world in all dimensions. This signifies Guangdong's strategic change in doing foreign trade and opening up the international market. Thus, Guangdong has entered a new stage of development in foreign trade and promoting economic development. Between 1979 and 1991, Guangdong's total value of exports reached \$67.72 billion with an average annual growth rate of 19.1 percent. After breaking the barrier of \$10 billion in 1990, Guangdong's total value of exports reached \$13.688 billion in 1991; and its total value of imports and exports reached \$28.68 billion in 1992, up 29 percent over 1991, of which the total value of exports reached \$18.045 billion, marking an increase of 31.8 percent and making up 25 percent of the total value of exports in the nation. In addition to Hong Kong and Macao, the major Western developed nations such as the United States, European Economic Community and Japan have become Guangdong's important export markets. In 1992, Guangdong actually put \$4.86 billion of foreign capital to good use, marking an increase of 0.25 percent over 1991. The number of registered Sino-foreign joint ventures, cooperative and exclusively foreign-owned enterprises was 225,000, making up 45 percent of the total number of such ventures and enterprises in the country. In addition, there were 25,000 enterprises which use buyers' own materials in the processing and assembling of products, and offer jobs to 200,000 people. Meanwhile, Guangdong has built a group of overseas enterprises abroad. About 100 such enterprises are in the United States, Thailand, Australia and other nations, laying a solid foundation for helping Guangdong in carrying out reform and opening up to the outside world, introducing foreign capital and advanced technologies, obtaining market information, actively selling export products abroad and setting up a marketing network on the international market.

The exploration and practice in the past 14 years has helped Guangdong gain a great deal of enlightenment to catch up with the "four little dragons" in the next 20 years and develop a strategy for diversified market.

1. Only by energetically developing an export-oriented economy, and promoting economic development on a solid ground, will it be possible for us to gain new strength in opening up the market. Many enterprises in Guangdong such as Wanbao, Banqiu, Baiyunshan and Rongsheng have invariably taken the initiative to expand their overseas markets to fight for their existence and promote future development. Right now, one-third of the products from Guangdong are of good value on the international market. About one-quarter of Guangdong's capital come from sources outside the province. In the course of developing an export-oriented economy, "Guangdong goods" have energetically opened up the domestic and foreign markets.

2. The superiority of neighboring Hong Kong and Macao has been brought into full play to help Guangdong rapidly move toward the world market via Hong Kong in foreign trade and maintaining economic relations with

foreign countries. Guangdong, Hong Kong and Macao have always maintained close ties and helped each other to promote economic development. Only by making full use of Hong Kong's role in financial affairs, trading and information exchange in international economy and by exploiting our advantages and avoiding our drawbacks, will it be possible to truly enhance our competitiveness in facing the world.

3. It is necessary to "hoist the sails to go overseas" instead of "leasing ships to go abroad." Right now, competition is intense in world trade. There is limited space left on the world market for us. Therefore, we must make full use of the marketing channels built by foreign business persons, trans-national companies and multiple-purpose commercial establishments as our agencies to open up the market with flexible forms in trading. Only by so doing, will it be possible for us to squeeze into the world market, gradually increase the share of the products from Guangdong on the international market, and finally set up our own marketing network.

4. It is imperative to move from pure commodity trading to diversified trading and upgrade from commodity management to equity management. For the past 14 years since the implementation of the reform and open policy, many of Guangdong's overseas enterprises, particularly Hong Kong's Yuehai and Macao's Nanyue, have done away with the traditional form of business management in purely carrying out commodity trading. They have actively participated in handling overseas transactions in real estate, financing, tourism, communication and transportation and in other trades. Meanwhile, they have also issued stocks and debentures, blazed a new trail in promoting comprehensive business management, and laid a good foundation in advancing towards international, comprehensive and diversified operation.

## II. General Concept in Developing Guangdong's Strategy for Diversified Market

(1) Guiding Principle in Working Out Strategy for Diversified Market. Guangdong must catch up with the "four little dragons" in promoting social and economic development within the next 20 years. Its economy must grow at an annual rate of 12.9 percent, and its export value must reach \$80 billion by 2000 and \$260 billion by 2010. It is necessary to have a vast market to catch up and overtake the "four little dragons." Without such a market, we would witness no or limited growth. More rigorous is the fact that what faces Guangdong in rapidly developing its economy right now is the international environment and the era of economic take-off of the "four little dragons." Things are different from what happened 13 years ago when Guangdong started to develop. The world economy is advancing toward the pattern of running businesses in groups and dividing them into regions. Regional markets with features to oppose other regions have started to take shape. Therefore, Guangdong must create a new market superiority

and maintain such superiority by readjusting its structure and making technical progress. It must readjust its diversified market strategy to lessen international market risks, finally form an international marketing network, and build a market to keep pace with its rapid development in foreign trade while trying to catch up with the "four little dragons."

The diversified market strategy includes not only a diversified market for exports, but also diversified scope of business and form of operation. As seen from Guangdong's development in foreign trade, we must extricate ourselves from regional market restrictions under which we merely sell and buy commodities, and handle international trading businesses in the seven markets of goods, technology, information, trained personnel, financing, real estate and tourism. As seen from enterprises, we must change management mechanisms, and try to make enterprises businesslike, transnational and diversified and turn them into enterprise groups. Only by doing so, will it be possible to truly face international competition and join the international market. The guiding principle in working out and forming Guangdong's strategy for diversified market is to encourage enterprises to do more foreign trade when conditions permit, and help them change their management mechanisms in accordance with international business practices, gain an upper hand in marketing and management, promote diversified development in foreign trade, catch up and overtake the "four little dragons" in Asia and further develop an export-oriented economy.

(2) Strategy for Opening Up Markets With Aim at Major Targets. In accordance with the targets set for Guangdong's future development in foreign trade, the overall concept to develop a diversified market for exports is to consolidate markets in Hong Kong and Macao and the United States; place emphasis on opening up markets in Western Europe, Japan, Southeast Asia, Commonwealth of Independent States and Eastern Europe; energetically develop markets in developing countries in Africa and South America. The ratio of exports to Hong Kong-Macao and foreign countries should be changed from 8:2 in 1990 to 6:4 in 2000. By the end of 1990s, the pattern in developing a world-oriented and diversified export market should take shape in Guangdong.

1. Markets in Hong Kong and Macao. In face of challenges posed by regionalization and grouping in world economy, Guangdong must exploit the favorable local conditions in neighboring Hong Kong and Macao. It must make full use of Hong Kong's standing in international economy in terms of trading, financing, information and qualified personnel; and continue to give full play to Hong Kong's major role in attracting foreign capital and importing technology. It must further improve the composition of export commodities to Hong Kong and Macao, and strive to develop manufactured goods and technology for export. It must also move aquatic products southward. It must further improve cooperation and relations among Guangdong, Hong Kong and Macao, and make use of such cooperation and

relations to link Guangdong with the international market while stimulating its own economic growth.

2. U.S. Market. The key in opening up the U.S. market is to "win with quality," actively readjust the composition of export products to the United States; try to sell "exquisite, small, unique, bright-colored and high-quality" light industrial and textile products first; offer all types of food, aquatic products, garden tools and small machinery products for sale; combine direct trade with transit trade; increase exports to the United States; and do a good job in running well overseas enterprises that have already been set up in the United States. Meanwhile, Guangdong must energetically open up markets in U.S. neighboring nations, and make use of the Free Trade Agreement between the United States and Canada to further open up the Canadian market to offset U.S. restrictions on our export merchandise.

3. Western European Market. As the huge unified European Common Market develops, commodities, labor forces, funds and personnel will be allowed to circulate freely; and European currencies, production and standards will be unified within the European community. We will be faced with an intensively competitive market and fierce trade protectionism. Therefore, we must work out a plan as early as possible to open up the Western European market by increasing the number of overseas enterprises with our emphasis on expanding direct trade, setting up centers for marketing, storage and distribution, and establishing joint ventures and cooperative enterprises. Meanwhile, we must strengthen scientific and technological cooperation with Western European nations, and use imports to stimulate our exports.

4. Southeast Asian Market. The six ASEAN nations witnessed rapid economic developments in recent years. The composition of import and export commodities in Guangdong complements with that in ASEAN countries. Therefore, the strategy for business operation and marketing aimed at opening up the market in Southeast East Asian nations are as follows:

A. It is necessary to expand direct exports to various Southeast Asian countries. Major commodities are light industrial and textile products, clothing, food, leather goods, home appliances, machinery and electrical appliances, small light industrial processing machinery, farm machinery, ships, building materials and so on.

B. It is necessary to open up the market in Southeast Asia for the export of our technology with emphasis on Guangdong's well-developed technologies for industrialization such as those used in small hydropower industry, small cement industry, sugar-refinery, paper mills and techniques in flax-processing, manufacturing precast cement and porcelain products and mineral smelting and some other patented technologies.

C. It is necessary to establish joint ventures and cooperative enterprises to set up factories for assembling products which are to be exported to third countries.

5. Market in Commonwealth Independent States and Eastern European. Due to the fact that the political and economic situation in these nations is not likely to become stable within a short period of time and owing to the lack of foreign exchange and capability to handle cash transactions, it is necessary to open up the market in these nations on a barter or cash basis to promote exports with imports. While expanding exports of Guangdong's light and textile products, home appliances, tea, sugar and all types of food, we should strive to import badly needed materials and industrial facilities into Guangdong on a barter basis, vigorously develop economic and technical cooperation with Commonwealth Independent States and Eastern European countries, and offer some projects to attract business persons from these countries to set up joint ventures and cooperative factories to turn out light and textile products, home appliances and process food. Products from these joint ventures and factories can be sold either locally or exported to third countries.

6. Market in developing nations in Africa and South America. The focal points in opening up this market are as follows:

A. Promote the development of commodity market with cooperation in the field of labor service.

B. Develop wholesale and retail businesses according to different conditions in different countries and areas.

C. Establish factories to assemble parts or set up centers to do processing. We must separate production processes of some home appliances, machinery and textile products by finishing the first half processing in China and the second half processing in developing nations, and make full use of the favorable nonquota condition of these nations to increase the amount of our export and transit goods such as textile and light industrial products to developed nations.

### III. Major Policy Measures in Executing Strategy for Diversified Market

(1) Continue reform of the foreign trade system. The proper way is to do things that are conducive to developing socialist productivity; make full use of both resources at home and abroad in doing foreign trade; integrate exports with imports; link domestic trade with foreign trade; carry out activities that combine trade with industry, agriculture and technology; and develop an operation mechanism under which enterprises manage and develop themselves, exercise self-restraint and assume responsibility for their own profits or losses. Enterprises should truly become industrialized, internationalized and diversified and operate in groups. Our targets in the near future are as follows:

A. Help foreign trade enterprises expand their scope of business operation with emphasis on a single trade, while handling businesses in other areas also.

B. Actively push state-run large- and medium-sized production enterprises (or enterprise groups) into the international market, delegate managerial power to the lower level, integrate industry with trading and help enterprises invest in each other and become each other's shareholders. Meanwhile, state-run large- and medium-sized production enterprises must strengthen their functions in developing new products and technology, and become a major force in opening up a diversified market.

C. Quicken the pace in allowing people to become shareholders of foreign trade enterprises.

(2) Adopt and improve an overall policy in achieving the strategy for diversified market. It is necessary to further reform the existing system for the control of foreign exchange, allow foreign trade enterprises to make use of the foreign exchange retained for their own use as an investment to set up overseas enterprises, and lift investment limitations and restrictions. To run foreign trade enterprises in an international environment, such enterprises should be allowed to raise funds outside Guangdong according to international practices (such as securing loans and issuing stocks and bonds) to tackle the issue of insufficient capital. As for the funds needed to operate overseas enterprises, the Bank of China may provide the necessary guarantee or extend loans as operating funds. Expenses that foreign trade enterprises promise to share on a contractual basis for opening up the market and increasing exports should be geared to their economic performances. A certain percentage of the profits may be retained by the enterprises for their own use as a reward. Appropriate measures may be taken to widen the gap in wages and benefits in dealing with personnel transferred to work overseas in various countries and areas. Preferential treatments in wages and benefits should be given to personnel and their families who are assigned to work in developing countries where living conditions are hard. Meanwhile, it is necessary to work out and improve the industrial policy on overseas investment, and implement such policy while readjusting the industrial structure to make our strategy for diversified market conform with the requirements in the development of Guangdong's economy.

(3) Rely on scientific and technological progress to open up the diversified market. Guangdong must increase the role of its scientific and technological progress by more than 50 percent in promoting its economic growth for the next 20 years. Therefore, heralded by scientific and technological progress, we must create "shock waves" in opening up the market, quicken our pace in transforming scientific and technological achievements into actual productive forces, give high priority to developing industries that meet world standards in science and technology, vigorously open up our market to export our own technology and let Guangdong's exports in technology grow in step with its technological progress.

(4) Continue to improve the structure of export commodities. After undergoing the "first transformation" of the structure of its export commodities from primary

products to finished products, Guangdong must strive to basically accomplish its "second transformation" from crude processing to elaborate processing of its finished products for exports by the year of 2000. Efforts must be made to increase the ratio of Guangdong's machinery and electrical products in the total volume of exports from one-fifth in 1990 to one-third [in 2000], continuously enhance the role of technology in export commodities, increase the export of technology, and ensure that our export industry and products will march towards the direction of substituting imports and expanding exports in the sequence of light industrial products—heavy industrial products—high technology.

(5) To improve the work for economic and technical cooperation with foreign countries and for the export of labor services and energetically increase export credit insurance business is an indispensable and important link in developing the diversified market. Efforts must be made to give enterprises that carry out economic and technical cooperation with foreign countries the power to import and export so that these enterprises may expand their commodity trading while promoting economic and technical cooperation and exporting labor services. To increase export credit insurance business and give certain business credit to the buyer will help foreign trade enterprises not only sell their products but also become more competitive so that they may expand their exports by using a more flexible form for payments in foreign exchange.

(6) Strengthen the work of training personnel for international management. The policy of "walking on two legs" may be implemented. On the one hand, we should transfer those with practical experience to work in overseas organizations and receive on-the-job training, while on the other hand, we should follow international practice in permitting foreign trade enterprises to hire "experts in buying and selling," Chinese students studying abroad and overseas Chinese in foreign countries. This is an effective way to make up the shortage of qualified personnel with expertise in international business management.

#### Guangzhou Simplifies Rules on Enterprise Registration

93CE0462A Beijing JINGJI RIBAO in Chinese  
12 Apr 93 p 1

[Article: "Less Barriers for Enterprise Registration; Four Decontrols Practiced in Guangzhou"]

[Text] With the pounding of the huge wave of market economy, Guangzhou a city without city walls once again tears down an "invincible high wall" for enterprise registration. With a spacious breadth of vision, it welcomes domestic and foreign business people to run businesses and enterprises in Guangzhou. It has won the honorable title of an "defenseless city."

It was after Deng Xiaoping's talks during his south China inspection tour that Guangzhou City made a breakthrough in reforming rules and regulations on enterprise registration. In carrying out the overall reform program, the city has followed four major principles. They are the principles of serving the establishment and development of socialist market economy, that of recognizing and respecting enterprises' decision-making power, that of treating all enterprises on an equal basis and that of developing market economy in an orderly manner. The reform in enterprise registration can be mainly summarized into two expansions, three simplifications and four decontrols.

There are two expansions. One is the expansion of district, while the other is the expansion of the scope of business for registration. It does not matter whether it is a domestic or foreign enterprise or whether it is an unit or individual. Anyone who meets all requirements can register. Everyone is welcome to run business or enterprises in Guangzhou. In the past, those who registered were in the business of industry, construction, commerce and catering services. Now the scope of business has expanded to include aviation, railway, transportation, post and telecommunications. Hospitals, newspaper or magazine publishing houses, scientific research institutes and various types of legal consultation and service organs originally attached to any institution can also register so that they may gradually become business units. Restrictions on any enterprise with foreign investment or any domestic private enterprise which applies for registration are also eased.

There are three simplifications. 1. The procedure of examination and approval by the department in charge of the affairs is simplified. 2. The procedure of going through various business links for registration is simplified (and the number of links are reduced). 3. The internal procedure for registration is simplified, and the waiting period for a business license is shortened. Fettered by planned economy, enterprises that wish to apply for registration in the past were required to go through many levels, cross many barriers and fill many forms; and needed many official stamps for examination and approval. They were awed by the procedure for registration. Now, except for those enterprises, enterprise groups or limited liability companies in the business of financing, foreign trade, real estate development, pharmaceutical production and construction, which still need to go through the procedure of examination and approval by the administrative department in the particular trade or any department authorized by the city government, other enterprises may ask the corporate units which organize them (corporate enterprises, corporate organs, corporate mass organizations or corporate institutions) to directly register with the administrative bureau for industry and commerce on their behalf. Any enterprise which is not attached to any unit or department may ask a person chosen by its investors to directly register with the administrative bureau for industry and commerce on its behalf. The internal procedure for

registration is further simplified. Any enterprise which applies for registration will be approved after verification as long as its major requirements on personnel, financial resource and site are met. A time limit is also clearly specified for each step of the registration procedure. Under normal circumstances, a business license will be issued within 20 days after the application is filed to any state-own or collective enterprise that applies for registration, within 15 days to any individual industrial and commercial establishment, and within seven days for any foreign-funded enterprise.

There are four decontrols. Measures are taken to decontrol the scope of business, the form of operation, the amount of the registered capital and the name of the enterprise. As for the scope of business, enterprises and individual industrial and commercial establishments should be allowed to buy and sell all types of commodities except those which the state has the exclusive right to purchase and sell (such as sedans, silver and gold).

According to statistics, in 1992 alone, the Guangzhou City Bureau of Industry and Commerce helped 16,430 enterprises complete their registration and start their businesses, broadened the scope of business for 7,307 enterprises, adjusted the form of operation for 2,184 enterprises, and changed other registered items for 9,456 enterprises so that a new situation of "leaving city doors wide open to welcome business people, and letting ships cruise at ease in the vast ocean of commerce" now prevails in Guangzhou.

#### Harbin Increases Hong Kong, Taiwan Investment

93CE0462B Beijing JINGJI RIBAO in Chinese  
29 Mar 93 p 3

[Article: "Harbin To Become New Hot Spot for Hong Kong, Taiwan Investment—Institute Preferential Policies, Improve Investment Climate, Raise Work Efficiency"]

[Text] With continuous improvement of the investment environment in Harbin over the past years, more and more overseas businessmen have come to Harbin to invest. Particularly since the announcement of comrade Deng Xiaoping's talks which he gave during his south China inspection tour and the gradual establishment of a market economy last year, Harbin which is located in China's border region finds itself in the good graces of investors from Hong Kong and Taiwan. In 1992 alone, Harbin approved 201 enterprises with Hong Kong investment and 48 enterprises with Taiwan investment, accounting for 61.8 percent of the total number of new Sino-foreign joint ventures, cooperative and solely foreign-owned enterprises for the whole year. Right now Hong Kong and Taiwan-funded enterprises have changed their line of business from catering services in the past to production, high-tech development and export business to earn foreign exchange. They mainly invest in electronics, machinery, textile industry, chemical industry, food industry, clothing, real estate, light

industry, decoration and other fields. The amount of investment has also increased from hundreds of thousands of dollars to millions and tens of millions of dollars. As of the end of February this year, there were 660 Chinese-foreign joint ventures, cooperative and solely foreign-owned enterprises in Harbin, of which there were 335 Hong Kong-funded enterprises and 74 Taiwan-funded enterprises. The number of Hong Kong and Taiwan-funded enterprises account for 62 percent of the total number of Chinese-foreign joint ventures, cooperative and solely foreign-owned enterprises. The total amount of investment made by foreign-funded enterprises in Harbin reached \$841 million, and that of contracted foreign investments totalled \$385 million, of which the total amount of investments made by Hong Kong and Taiwan-funded enterprises totalled \$635 million and that of contracted Hong Kong and Taiwan investments totalled \$287 million, accounting for 75.5 percent and 74.5 percent of the total amount respectively. The Sino-foreign joint ventures, cooperative and solely foreign-owned enterprises with Hong Kong and Taiwan investment come out in front in promoting exports, earning foreign exchange and offering employment.

The reason Harbin became a hot spot in attracting Hong Kong and Taiwan investments is mainly because the city has formulated even more preferential policies in line with local conditions, while implementing various state preferential policies. These local preferential policies are as follows: Enterprises with foreign investment are exempted from local income tax for 10 years beginning the year they make profit. Personal income tax for foreign employees of enterprises with foreign investment has been reduced by half on wage or salary income. Products turned out by enterprises with foreign investment and sold in China are exempted from industrial and commercial consolidated tax for two years. Enterprises manufacturing export products, high-tech enterprises and other enterprises with foreign investment encouraged by the state are exempted from charges for land use for a period of 10 years. For each \$100,000 invested, a foreign investor may arrange one of his or her rural friends or relatives to settle down in the city or township where the investment is made. Preferential treatment will be made to help enterprises with foreign investment go through the procedure to purchase any motor vehicle in Harbin. Foreign employees of enterprises with foreign investment may pay for their food and lodging, transportation, post and telecommunications and medical expenses in renminbi. Anyone who succeeds in attracting foreign investment will be given a bonus equivalent to 0.1 to 0.6 percent of the actual amount of investment.

To simplify the procedure of examining and approving projects and increase work efficiency, the Harbin City CPC Committee and the city government set up a "Harbin City Administrative Bureau for Foreign Trade" to examine, approve and control, in an unified manner, all projects on the use of foreign capital. All the departments concerned are in the same building. They make

things convenient for foreign investors by providing all services at a single window. In order to timely and effectively serve the Chinese-foreign joint ventures, cooperative and solely foreign-owned enterprises, the Harbin City government holds a monthly routine meeting to coordinate with these enterprises in production and business operation. The meeting, presided over by a deputy mayor in charge of foreign economic relations and trade, is aimed at overcoming difficulties and solving problems of these enterprises in production and business operation on the spot.

To attract more business people from Hong Kong and Taiwan to invest in Harbin, the city institutes a policy to bring into full play the favorable conditions in the border area, make good use of the policies formulated by coastal cities, try to build a major thoroughfare which "connects the south and opens up the north," pay attention to both the Commonwealth of Independent States as well as Hong Kong and Taiwan, exert even greater efforts in introducing more foreign investment, and regard drawing foreign investment and "grafting" large- and medium-sized enterprises as this year's central tasks in attracting foreign business people and investment. By 1995, 30 to 50 percent of large- and medium-sized enterprises in the city should be renovated with the use of foreign capital. The city persistently upholds "five priorities" and "four combines." That is, priority should be given to "grafting" enterprises, promoting serial development, exploiting natural resources, building infrastructure, and developing large projects. It is necessary to combine large projects with small- and medium-sized projects; projects of a production nature with those in tertiary industry; projects in developing Sino-foreign joint ventures, cooperative and solely foreign-owned enterprises with those that manufacture, process and assemble products with materials or specifications from foreign business people and engage in compensation trade; and labor intensive projects with high-tech projects. By adopting these measures, the city is paying attention to quality rather than quantity in the use of foreign capital.

## FINANCE, BANKING

### Speedy Tax Reform Urged To Boost Market Economy

93CE0385A Beijing JINGJI RIBAO in Chinese  
2, 12 Mar 93 p 7

[Article in two installments: "Experts Call for Speedy Tax Reform To Boost Market Economy"]

[2 Mar 93 p 7]

[Text] This newspaper will devote a column to the "market economy and taxation" between March and May this year. Accordingly, the China Tax Society and the theoretical department of this newspaper jointly invited some experts and scholars to participate in a seminar. It was also attended by Director Jin Xin [6855

9515] of the State Administration of Taxation Comrade and Fan Jingyi [5400 2417 1350], this newspaper's editor-in-chief. The discussion revolved around several topics as follows:

1. Enhance our understanding of the urgency of tax reform. After the 14th CPC National Congress explicitly adopted the establishment of a socialist market economy as the goal of economic restructuring, reform notably picked up on all fronts. A string of measures was unveiled to change the enterprise operating mechanism and promote the maturation of the capital goods markets. This has been a great opportunity for tax collection. This year tax collection achieved a new breakthrough. Industrial and commercial tax collection yielded 260.1 billion yuan in revenue, 26.7 billion more than the preceding year, and 9.7 billion more than projected. The rate of increase has been substantial. Tax agencies collected 345.6 billion yuan in revenue in all, including 20.3 billion yuan from the individual economy, a matter of great interest to everybody, up 3.3 billion from a year ago, and 10.7 billion yuan from foreign business, up 3.7 billion compared to the preceding year. From another perspective, however, tax collection work is also facing a number of new problems. For instance, there has been a proliferation of development zones, some of which do not live up to their name. Every locality is free to announce preferential policies in violation of the principle of having a uniform tax code. The results have not been all that good. The lack of uniformity has also been a headache to foreign businessmen. This is really a matter of whether or not we insist on tackling tax matters in accordance with the law. The attitude of the State Council is quite clear; last year it issued a special notice demanding that all localities correct their practice of announcing preferential tax treatments on their own.

Some comrades point out that there are currently three ways in which fact and formality do not match in tax collection. First of all, formal tax rates are not consistent with the actual tax burden. Second, while the power to tax formally belongs with the central government, local governments at all levels often act ultra vires. Nor is there a clear separation of powers and responsibilities. Third, there is a discrepancy between the law and reality also in the scale of the revenue. The existence of a "second treasury" outside local budgets has vastly increased the size of the funds at the disposal of the government beyond what is collected in revenue. Income distribution is highly irregular. As a result of all these problems, the growth in revenue has lagged behind that of the economy, which shows that the existing tax system is ill suited for continuing economic reform. The Chinese market economy rests on a weak foundation and is not given adequate attention in theoretical research. The urgency of tax reform is not sufficiently understood. In Western nations, taxation plays a major role in macroeconomic regulation and control. In times of economic change, in particular, tax policy plays an even more direct role than monetary policy. In contrast, taxation in

China has not been fully used as a lever in macroeconomic regulation and control. Hence the need for bold moves to speed up tax reform.

2. Tax reform must start with the adjustment of the distribution pattern. Tax reform will inevitably involve the adjustment of the existing pattern of interest distribution. It is not enough just to talk about the need for tax reform. What we need to do is to develop a coherent philosophy and then formulate a plan of action after making comparisons, verifications, and projections. Ultimately the plan must be legislated into law. Use the tax code to resolve the conflicts in the distribution system. According to analyses conducted by the comprehensive departments, 80 percent of the GNP will ultimately be transferred into the hands of individuals. Yet the total volume of tax revenue and the tax structure are not suited to the new economic operating mechanism. It was noted during the seminar that enterprises these days feel so overburdened with paying taxes that they could not afford to grow even as the government is running a large budget deficit. It was proposed that taxes make up a sizeable share of the national income. These two seemingly contradictory positions actually make sense. The reason is that the treasury has control over only what is within the budget whereas the enterprise is burdened with much more than that. The gap between the former and the latter is widening by the day. This shows that the treasury has control over a shrinking area. These are serious problems with income distribution in extra-budget circulation. Problems in the following two areas must be resolved through tax reform. First, the mix of tax revenue. In some developed areas, the collective economy accounts for over half of the GNP but a mere 20 percent of the taxes collected. Second, we must keep tax revenue on a proper scale by adjusting the distribution policy. There is a number of industries with a high output which are capital-intensive and whose products have a long life-cycle. In the past these industries were undercapitalized. Now that the prices of their products have been raised, we have taken the expedient of exempting part of their output whose prices are regulated from paying taxes. The tax-exempt share of the GNP has been growing steadily, which militates against the regularization of distribution relations. A solution should be adopted after comprehensive consideration.

3. Issues to be addressed in tax reform. One issue is after-tax loan repayment by enterprises. It will be in line with the needs of changing the enterprise operating mechanism to lower enterprise income tax rates, unify the enterprise income tax system, replace pre-tax loan repayment with after-tax loan repayment, and abolish the "two funds." However, we must figure out what to do about the outstanding balances on the loans now running into hundreds of billions of yuan. The solution must vary depending on the circumstances of each case. In cases where loans were made to enterprises in place of grants, the balance can be turned into state investment. In other cases, the loans can be converted into enterprise shares. In yet other cases, the banks may have to write off

the bad loans. Since it is the enterprises that borrow from banks, the onus rests mainly on them to repay the loans. The state, for its part, should create the conditions to help enhance the enterprises' repayment ability. Apart from abolishing the "two funds" and lowering enterprise income tax rates, it may also consider basically exempting enterprises from turning over after-tax profits for a number of years while reserving the right as property owner to take a cut of the enterprises' after-tax profits.

A second issue is making use of taxation in macroeconomic regulation and control while tapping new revenue sources at the same time. First of all, as the pattern of national income distribution changes, we should step up the collection of personal income taxes. This is a job that involves an important policy matter and requires sound management. In setting tax deductibility criteria, we should emphasize the regulation of distribution. As for the method of collection, what we should try to achieve over time is to have everybody file an income tax return and institute a comprehensive system of tax withholding and tax payment. Instilling in the citizens a tax-paying consciousness is a social undertaking that must occur over a period of time. Second, we must tighten the tax regulation and control of land appreciation and the use of state-owned resources. In some places these days, the government derives almost half of its income from land appreciation, but taxes make up only a tiny portion of such income. This problem must be resolved as part of overall tax reform. Otherwise the land interests of the state cannot be protected. Nor will the conditions of the reform of the land use system be met.

4. Tax reform must be coordinated with the reform of the tax collection management system. For starters we must reform the tax management system, strengthen the vertical management of the tax system, and divide managerial authority in accordance with where the revenue collected belongs to. Second, we must further improve the existing tax collection special personnel system and collect taxes in strict accordance with the law. No time should be wasted in adopting and gradually popularizing the tax payment agent system overseas to facilitate the thorough implementation of the tax law.

[12 Mar 93 p 7]

[Text] The establishment of a socialist market economy makes it even more imperative that tax reform be continued and the tax code be strengthened. To change the enterprise operating mechanism, we need taxation to regularize distribution relations among state enterprises and spur competition on a level playing field. The maturation of a market system requires the early formation of a market order including a coherent tax system. The overhaul of macroeconomic management methods requires the tax system to play an indirect regulatory and control role. The separation of government administration from enterprise management and changes in the pattern of social distribution require taxes to guarantee revenue for the government. To do a good job in taxation

right now, therefore, we must proceed from the broad picture—creating a socialist market economy—and correctly understand the place and functions of taxation in a market economy.

#### **Strengthening the Tax Collection Function Is an Objective Requirement of the Market Economy**

The market economy is an economy where economic activities are organized through the market mechanism and the market plays a basic role in resource allocation. A market economy is not intrinsically socialist or capitalist. All market economies, be they capitalist or socialist, share the following basic attributes: 1) Every stage in social reproduction—production, distribution, exchange, and consumption—and every kind of economic activity are part of market relations directly or indirectly. The market mechanism is the basic operating mechanism that regulates the entire social economy, stimulates the circulation of capital goods, and promotes resource allocation. 2) All enterprises have decision-making authority in their operations and are obliged to pay taxes and assume responsibility for their own profits and losses in accordance with the law. As commodity producers and operators that have decision-making authority in their operations, assume responsibility for their own profits and losses, and are capable of self-development and self-discipline, the enterprise legal persons are the principal players in the market, doing business with one another through commodity and monetary exchange. 3) The government does not intervene directly in the detailed affairs of enterprise productions and operations. Instead, the government regulates and standardizes the business activities of enterprises with fiscal, tax, price, and banking policies. 4) All business activities must be conducted in accordance with the law. There is a sound legal basis for all economic activities.

From the above analysis, I believe we can conclude that the market economy has the following characteristics that are closely related to taxation. A correct understanding of these characteristics is most critical to finding a proper place for taxation in the market economy and fully using its function in such an economy. First, the market is unified, not fragmented. The development of a market economy calls for removing the boundaries between places, forming equal commodity exchange relations between different places and enterprises, and setting up a unified market on a national scale. If the market is fragmented artificially and administrative or economic tools are resorted to in the interest of local protectionism, the establishment of a market economy will be seriously hampered. Second, the market is open, not closed. Openness is an objective requirement of commodity exchange and the establishment of a market economy. In the 1990s, not only is opening up the market something that must be done within a nation, but advanced international trade has become the indispensable means of commodity exchange among all nations. The more economically developed a nation, the greater the scale of its international trade, with countries each putting their strengths

to good use. The result is that resource allocation is optimized and the best economic results are achieved. Traditionally China followed a closed economy, leading to the closing of the public mind and economic backwardness. Fourteen years of practice after China embarked on reform and introduced an open policy show that the move from a product economy to a commodity economy, from a planned economy to a market economy, is an inevitable trend culminating in the internationalization of markets and China's link-up with the global market. Third, the market is competitive, not monopolistic. Competition is the minimum requirement of a market economy. Only with competition can you have survival of the fittest. Only competition can stimulate enterprise progress so that enterprises will never stop improving their quality and economic performance in an environment where they both operate under pressure and have the incentive to do better. Enterprises strive to survive and develop amid competition, in the process raising the level of social productive forces steadily. Fourth, the market operates in accordance with objective economic laws. At the same time, it is always under macroeconomic regulation and control by the state. In essence the market economy is regulated spontaneously by the law of value, not administrative orders or mandatory targets. At the same time, however, the market economy has the following drawbacks: it is spontaneous, haphazard, and reactive. It needs to be regulated and controlled macroeconomically by the state using economic and legal tools. In developing a market economy under socialism, it is entirely necessary and possible to combine market regulation organically with macroeconomic regulation and control by the state to limit the negative elements of the market economy and ensure that the market mechanism will work even better.

In a socialist market economy, taxation is an instrument with which the state participates in social product distribution and generates revenue for the treasury. It is also an economic lever at the direct disposal of the state for regulating every stage of social reproduction, an economic lever whose place and function no other administrative tool or economic lever can replace. This is not all. As the transition from the planned economy to the market economy gets under way, some of the methods of government regulation and control, administrative orders, and command planning that used to dominate the planned economy will significantly diminish, to be replaced by regulation through the market mechanism. Take prices, for instance. Instead of controlling prices directly, the state now essentially relies on the market mechanism to regulate prices in accordance with the objective demands of the law of value. But we cannot rely exclusively on the market mechanism to resolve the major fundamental problems in a socialist economy, such as balancing the overall economy, adjusting the product mix, ensuring fair competition, and solving the inequities in social distribution, to name a few. None of these can be solved by relying on the market mechanism alone. Instead, macroeconomic regulation and control by the state is needed. Because of its legal status and its

ability to regulate the economy, taxation will naturally become one of the leading instruments of macroeconomic regulation and control available to a country with a socialist market economy. We must study the guiding thought behind tax collection in depth, and by continuing tax reform, enable the tax system and tax collection work to meet the needs of developing a socialist market economy. All this should help the formation of a unified, open, and competitive market that operates in accordance with economic principles.

#### The Place of Taxation in a Market Economy

Given the above considerations, I think that taxation in a socialist market economy should fulfill the following roles.

First, realize the principle of fair tax burden and promote competition. To establish and develop a market economy, we must first change the enterprise operating mechanism and allow every enterprise to become a commodity producer and operator that has decision-making authority in its operations, assumes responsibility for its own profits and losses, and is capable of self-development and self-discipline. In the future the production and trading of a vast majority of commodities must be decontrolled with the exception of a handful of commodities that impact the nation's economy and people's livelihood. What to make and how much? Let the market decide. The market is the battleground of enterprise competition. If an enterprise competes successfully on the market, it will survive. Otherwise it will be eliminated. The enterprise is the cell of the market economy. Only through competition can we enable all cells to grow and mature and the entire market economy to grow and mature. Competition is a prerequisite for developing a market economy. The market economy demands competition. Competition must be fair. Unfair competition will inevitably impede the healthy development of a market economy. In a market economy, the distribution relation between the state and the enterprise are basically realized through taxation, so whether or not the tax burden is fair has decisive significance for ensuring fair competition. If the tax burden is not fair, there can be no fair competition. Thus both the guiding thought behind taxation and tax laws and regulations should realize the principle of fair tax burden for all kinds of enterprises and promote fair competition. Competition takes place under a uniform set of basic rules, one of them being a uniform tax code. Only by following a uniform tax code can we achieve fair competition. It is like an athletic competition. Contestants must abide by a set of rules. If there are no uniform rules or if the rules are not followed, there will be chaos. Similarly, in market competition taxation must be an impartial judge. Only by strictly enforcing a uniform tax code and making all competitors pay taxes on an equal footing can we ensure and stimulate healthy competition.

Second, implement the national industrial policy and promote the adjustment of the economic structure. To develop the national economy in a coordinated way, we

must formulate an industrial policy suited to China's national conditions to optimize resource allocation and rationalize the economic structure. So far China's economic structure remains unsound and must be adjusted over time. Under the old planned economy, we depended primarily on issuing administrative orders and documents and setting mandatory targets, now proven by practice to be ineffectual. We cannot continue to adopt these methods in a market economy. On the other hand, it will be difficult to rely totally on the market mechanism to regulate resource allocation spontaneously and rationalize the economic structure. Moreover, it will be highly haphazard, wasting social wealth. So government intervention and guidance by the national macroeconomic policy are imperative. The state must deploy a range of macroeconomic regulatory and control instruments to achieve its industrial policy and accelerate the rationalization of the economic structure and resource allocation. One of the most vital instruments is taxation.

Third, regulate distribution. Taxation has always been a basic tool with which the state participates in and regulates social distribution. In a socialist market economy, taxation regulates distribution mainly in two ways. First, it reconciles comprehensively the interests of the state, the collective, and the individual and sort out the distribution relations between the state and the enterprise, between the central government and the localities. The distribution relations between the state and the enterprise are essentially tax relations. To sort out the distribution relations between the central government and localities, we must gradually introduce a tax separation system and put equal emphasis on the interests of the central government and those of the localities, thus fully mobilizing both parties' initiative. Second, use taxation as a regulator to achieve the goal of common wealth. The fundamental objective of socialism is to let the masses embark on the road to common prosperity. Poverty, let alone bipolarization, is not socialism. Our policy is to encourage and allow some people to become rich ahead of others by engaging in legitimate business and honest labor, to encourage economically developed areas to become rich first by exploiting their own strengths, thereby bringing along other areas and other people to embark on the road to common prosperity. In the course of developing a market economy, we must, on the one hand, eliminate egalitarianism and break the habit of eating from the big rice pot, encourage people to work harder to make more money, promote enrichment through diligence, and introduce reasonable income disparities. On the other hand, we should take measures to regulate excessive incomes, moderate the inequities in social income distribution, and prevent a bipolarization between the very rich and the very poor. This is a historic mission that will determine the direction of socialism. And taxation has a major part to play in it. Fully used, regulation by taxation can effectively help bring about the adjustment of this distribution pattern. As a regulator of income, taxation is irreplaceable and its role will only get more

and more prominent, more and more important, and more and more appreciated by the public as time goes on.

Fourth, strengthen macroeconomic regulation and control even as we fully use the market mechanism. To develop a socialist market economy, we must establish an appropriate macroeconomic regulatory and control system. The socialist market economy we are talking about is one where the market plays a fundamental role in resource allocation under macroeconomic regulation and control by the state so that economic activities meet the demands of the law of value and adapt to changes in supply-demand relations. Macroeconomic regulation and control by the state is inherent in the system itself. Fully using the market mechanism is consistent with strengthening macroeconomic regulation and control. The more we make use of the market, the more compelling the need to study ways of guiding the healthy development of the market. Taxation occupies a key place in the macroeconomic regulatory and control system by the state. By strengthening the tax legal system, unifying the tax code, and centralizing the taxing power appropriately, we should be able to guide and regulate the development of the market, limit its haphazardness, and get a handle on the macroeconomy. At the same time, we should exploit the strengths of taxation to fully use the market and expedite the vitalization of the microeconomy. Currently our tax system, tax policy, and tax management still fall short of meeting the needs of developing a market economy. At a time when market exchanges are becoming more and more internationalized, in particular, the need is even greater for our tax system and tax management to keep pace with it. Reforming the tax system, adjusting the tax policy, and improving tax management is a mission that brooks no delay. We must study these issues in earnest and act vigorously to improve China's tax system. That will help establish and develop a market economy, fully use the market, strengthen macroeconomic regulation and control, and promote microeconomic invigoration.

Fifth, accumulate funds. Accumulating funds for the state was, is, and will always be the most basic function of taxation. Establishing and developing a socialist market economy, speeding up reform, ensuring the normal operations of the government machinery, funding public projects, exercising macroeconomic regulation and control over the entire economy—all that must be backed by adequate funds. The source of funds is the deduction from total social output in the form of taxes. Besides circulation taxes, the principal sources of government tax revenue in a purely planned economy are the profits the state receives from enterprises as the owner of the properties of enterprises owned by the whole people. In a market economy, on the other hand, the enterprise is an independent commodity producer and operator, so the state depends on taxes levied on enterprises in accordance with the law as the major source of revenue. Thus the revenue collection function of the tax system assumes additional importance if we

are to create and develop a market economy. It must be strengthened, not weakened.

To sum up, taxation plays many roles in a socialist market economy: ensuring the healthy operations of a market economy, expediting the formation and perfection of a market mechanism, regulating social distribution to achieve common wealth, and limiting the negative effects of the market economy. The market must operate on a sound legal basis, so at no time at all can we deviate from the principle of managing the tax system in accordance with the law. The market is a unified market, so the tax code also must be universal. The market is an open market, so the tax structure and tax collection must meet the needs of openness and gradually dovetail with international tax practices. Since the market is competitive, tax collection must embody the principle of fair tax burden. Since the market operates in accordance with objective economic principles, taxation must play an even greater role in strengthening macroeconomic regulation and control and promoting microeconomic vitalization. Thus the function of taxation in establishing and developing a socialist market economy can only be strengthened, not weakened. Take a look at countries around the world today. The more developed the market economy, the tougher its tax system. There is hardly a nation in the world today that has successfully put together a market economy without a strong and effective tax collection system. This is one truth on which all quarters in society now see eye to eye.

**Financial Issues Emphasized in Economic Reform**  
*93CE0448A Beijing JINRONG SHIBAO in Chinese*  
*5 Apr 93 p 3*

[Article by Wang Guangqian (3769 1639 6197), professor at the Central Institute of Finance and Banking: "We Must Stress the Importance of Financial Development in Reform"]

[Text]           **1. The Question Arises**

The direct objective of financial reform should be the promotion of financial development and improvement of financial service for the convenience of people's economic and social life, while invigorating financing activities and raising the effectiveness of resources allocation. In China, since the economic system is currently undergoing a change and reform has been carried out for only a decade or so, financial development remains at a rather low level, and financial service still has something to be desired. With the continuing of reform, however, the Chinese people's living standards are expected to rise considerably, and China will be geared on a wider scale to the world. Our financial service, for domestic residents and foreign people alike, must catch up in time with this development. All-round, sound, and internationally acceptable financial service should be an important part of China's financial development. What is more, the United Nations decided at the end of 1992 to make social development the theme of the next world

summit. Such being the case, it is not only of vital importance but of great urgency to pay attention to China's financial development in the course of the reform.

**2. Relationship Between Financial and Social Development**

Financial development constitutes a vital part of social development. This is embodied mainly in its contributions to economic and social development. Under the modern economic condition, financial development not only promotes economic development through the circulation of currency and flow of funds, but also has become an economic sector, or an industry. In western developed countries, the financial industry accounts for about one-fifth of the GNP.

There are fairly ample theoretical expositions on financial development as a necessary condition for economic development. These expositions are relatively point-blank and easy to understand—for example, without financial development, economic development will be hindered. Then, in what ways does financial development constitute a condition for social development? First of all, financial development provides people with convenience in various aspects of their life. It has become one of the primary yardsticks for assessing social development and progress. As a result of financial development, wealth possessed by people has changed from real property to money, which is a general equivalent form of value. Quite obviously, it is much more convenient to hold money than real property. Furthermore, with the development of the credit system, the metallic currency has withdrawn from the historical arena. Circulation of paper currency and transfers of accounts by checks are, no doubt, an even greater convenience. Modern education requires the input of large amounts of funds in various forms and at different levels. Financial development has made it possible to raise funds for education and provided numerous fund-raising channels for this purpose. It has linked education development, as a special industry, to economic and social development, and placed education input and development firmly on a socioeconomic basis. Commercialized housing is an imperative measure to radically solve people's housing difficulty and raise their living quality, while financial development has provided a favorable condition for commercialized housing. Employment is a means of livelihood as well as a prerequisite for better quality of life, while the development of the financial industry has not only provided job opportunities directly to people, but made it possible to increase employment in other economic sectors as well. Viewed in the perspectives of medical care, insurance, and other aspects of social security, financial development is all the more important, for it creates the condition and provides a means for people to combat natural disasters and mishaps and to prevent and treat diseases cooperatively, thereby ensuring the development of mankind and the progress of human society.

### 3. Primary Criteria To Assess Financial Development

From the viewpoint of economics, financial development can be assessed by the following criteria: (1) the percentage of GNP attributable to the financial industry; (2) the extent of monetization of the economy; (3) the resource allocation method; (4) the conversion of savings into investment appraised in terms of quantity and quality; and (5) the price-formation process for financial commodities.

**Percentage of GNP Attributable to the Financial Industry** In the modern economy, financial development itself has become an industry. Now, the general opinion of countries the world over is that the financial industry is one of the most important tertiary industries. Since the turn of this century, especially after World War II, all countries in the world have witnessed a sharply increasing percentage of GNP attributable to the financial industry. The financial industry contributes to about 20 percent of the GNP in developed countries. In developing countries, however, the percentage is still comparatively low.

**Extent of Monetization of the Economy** The extent of monetization of the economy depends on the development of the commodity economy as well as the nation's economic management system. The history of world economic development shows that economic development is closely linked with the monetization of the economy. Under the condition of the commodity economy, especially the modern market economy, the role of finance is brought into full play, and financial development proceeds at a high speed. In the course of financial development, the commodity economy grows quickly. The development of the commodity economy increases the extent of monetization of the economy, which further promotes the commodity economy.

**Resource Allocation Method** Resources are a production element and the primary basis for economic development. Resource allocation methods have much to do with the speed and quality of economic development. As shown by economic development experience of countries the world over, it is more effective to allocate resources through the market mechanism than by administrative means, while allocation of resources through the market mechanism requires the flow of funds as a precondition. Accordingly, full-scale financial development is a must for the optimum allocation of resources. Without a developed financial market and vigorous financial institutions, effective allocation of resources will be drastically hampered.

**Conversion of Savings Into Investment Appraised in Terms of Quantity and Quality** In a society without a developed commodity economy, the principal form of savings is savings in kind. Because of numerous restrictions, only a relatively low percentage of savings in kind can be converted into investment. To raise the percentage of such conversion, the first thing is to change savings in kind into monetary savings, and as a basic

premise for this change, there must be interest on monetary savings. Further, there is a question on conversion from monetary savings into investment (formation of capital); that is, not all monetary savings can be converted into investment. To maximize the rate of conversion, at least the following conditions must be met: First, the investment return should be higher than the benefits derived from monetary savings. Second, the cost of converting monetary savings into realistic investment should be relatively low, and the procedure involved should be fairly simple. Third, there should be diversified investment projects and opportunities to choose. Fourth, flexible mechanisms should be available for switching investment from one field to another.

**Price-Formation Process for Financial Commodities** The prices of financial commodities are based primarily on interest and foreign exchange rates. Generally speaking, interest and foreign exchange rates are either set according to the administrative plan or determined by the market mechanism. Most countries with a less developed commodity economy used to include financial development in their state plans in the hope to use it as a means to shake off their backwardness as early as possible. Under such circumstances, they have set their interest and foreign exchange rates by administrative or legal means so as to use low interest rates to encourage investment and rely on foreign exchange control to lessen influence from foreign countries. With the development of their commodity economies and the growing trend of worldwide economic integration, however, they are replacing their seclusive policy with an open-door policy and substituting their special measures by international practice. Accordingly, the prices of financial commodities are gradually becoming market-oriented and internationalized as a result of international financial exchange and development.

From the social viewpoint, the extent of financial development is manifested principally by the following: (1) convenience of financial service; (2) scope and quality of financial service; (3) convenience of international exchanges; and (4) international acceptability of financial service.

**Convenience of Financial Service** Modern life is inseparably linked with sound and convenient financial service. In developed countries financial institutions are quite common. They employ over 4 percent of the total wage earners, and on the average, every 2,000-3,000 people are served by a financial institution. In China, these are 0.35 percent and more than 6,000 people, respectively. The use of credit cards, a symbol of financial modernization, is playing a significant role in serving people's convenience. In developed countries credit cards are used very extensively. They are accepted at all stores and service facilities, providing a great convenience to consumers. In China, credit cards began to be issued in 1986. Yet only a few million credit cards have been issued so far. Apart from the people's low monetary income, the nonpopularity of credit cards is attributable mainly to the fact that only few stores and

service units in our society are accepting credit cards. Another significant reason is that our financial institutions are more stringent in issuing credit cards, and the cost of issuing credit cards is relatively high.

**Scope and Quality of Financial Service** A significant way to assess financial development is to see the scope and quality of financial service. On the basis of offering the services of making payment, exchanging money, providing credit loans, and settling accounts, modern financial institutions have marched toward multi-directional development. Now, financial information service, counseling service, and financial agent service (such as receiving and making payments, demanding payment of overdue accounts, and making investments on behalf of clients) have become the main businesses of modern financial institutions.

**Convenience of International Exchanges** As international exchanges are inevitably accompanied by monetary flow between countries, monetary internationalization has become an unchangeable trend. In open-door countries with frequent international exchanges, financial institutions serve not only domestic residents but also foreign people, and international business constitutes a significant part of their operations. The scope and quality of their service have a great bearing on their countries' economies.

**International Acceptability of Financial Service** When a country is truly marching toward the international community, its financial service must be adapted to the international practice. Under such circumstances, so-called laws and regulations based on its national conditions will be scaled down to a minimum, while services offered by its financial institutions will be more in line with the international practice. Because of this, introduction and use of internationally "established financial products" will become a significant part of financial development, and the style of overemphasizing national characteristics and traditions will be inappropriate.

## TRANSPORTATION

**Air Route Opens Between Shenzhen, Singapore**  
OW1705144693 Beijing XINHUA in English  
1349 GMT 17 May 93

[Text] Shenzhen, May 17 (XINHUA)—An international air route to Singapore opened Sunday [16 May] from Shenzhen, a special economic zone in South China's Guangdong Province.

This is Shenzhen's first international air route.

South China Airlines will operate a return flight every Sunday.

One of the six-largest airports in China, Shenzhen airport plans to open more international air routes.

## AGRICULTURE

**Introduction to Minister of Agriculture Liu Jiang**  
93CE0452A Beijing NONGMIN RIBAO in Chinese  
1 Apr 93 p 2

[Article by Jiang Guocheng: "Newly Appointed Minister of Agriculture Liu Jiang"]

[Text] Newly appointed Minister of Agriculture Liu Jiang is 52 years old and of medium height. He is an affable person and expert on agriculture with outstanding achievements.

Whenever Liu Jiang is mentioned, people always think about the well-known "food basket project" that he was responsible for implementing. In the past two years, he again engaged in making major strategic policy decisions on opening areas along the border and the Yangtze River wider to the outside world and developing the tertiary industry and the economy in development zones. In 1986 and 1987 the grain price soared because of a drop in grain production; nonstaple food in large- and medium-sized cities were in short supply; and the price increase of such food once made up two-thirds of the national retail price index. During that time, various large- and medium-sized cities throughout the country were forced to restore the system under which each customer could only buy a limited quantity of nonstaple food such as meat, eggs, milk, fish and vegetables. Residents had to line up to buy them with coupons. Finally it triggered a nation-wide buying spree which swept the whole nation in 1988.

In 1988, China decided to develop a "food basket project" on a nation-wide basis and build a large number of base areas for the production of farm produce and nonstaple food to overcome the shortage of meat, eggs, milk, fish, vegetables and other nonstaple food in urban areas. Liu Jiang, who was Deputy Minister of Agriculture at that time, shared the responsibility in implementing this task.

According to statistics, the per-capita share of meat in China reached 25.3 kg in 1991. The per-capita shares of meat, eggs and milk were respectively 2.8, 3 and 4.4 times over those in 1978. China's production output of meat and eggs successively tops the world. Its production output of aquatic products also ranks third in the world. The supply of farm produce and nonstaple food in the whole country has basically satisfied the needs of the rural and urban residents. People no longer need to stand in a long line to buy meat, milk, eggs, aquatic products and vegetables.

Born in Beijing, Liu Jiang graduated from the Shihezi Agricultural College in Xinjiang in 1964. After his graduation, he worked in a military farm in Tibet for eight years, assuming various posts as a technician, farm director and so on. He said that his "comparatively rough experience" during that period had "tempered" him. During the 12 years after 1972, he was transferred

to work in the Bureau of Animal Husbandry in Beijing to do technical work. Later, he worked as a farm director, Chief of the Bureau of Animal Husbandry in Beijing and so on. During that period, he energetically promoted mechanization in raising chicken and solved the problem of shortage in chicken meat and eggs for the residents in the capital. This gave impetus to the nationwide surge in mechanizing chicken farms.

After spending two years in studying management courses in the development of national economy at the Party School under the CPC Central Committee, Liu Jiang was promoted to the post of Deputy Minister of Agriculture in 1986. Dwelling on his experience during the five years as Deputy Minister of Agriculture, Liu Jiang said that his share in developing the "food basket project" was the most important work he did. The "food basket project" solved the problem of the shortage of nonstaple food in the country and played a "significant role in promoting social stability and the reform program," he added.

At the end of 1990, he was appointed Deputy Minister of the State Planning Commission. During that period, he put forward his views on how to let China's rural areas achieve a comfortable living by 2000 and tackle the major issues that await China's agriculture in the 1990s. He also submitted reports on how to speed up the development of the tertiary industry and on issues concerning regional economic planning in China. Many of his proposals were accepted.

This newly appointed Minister of Agriculture believes that the "exodus of rural population" around the Spring Festival every year reflects the shift of the rural surplus manpower. He said that by the year of 2000, China's rural areas must shift a labor force totaling 100 million people. This massive labor force must not only be transferred to the urban areas. More important is that efforts must be made to further tap the latent potentialities within agriculture to absorb the surplus labor force and help farmers increase their income by developing the secondary and tertiary industries including rural enterprises.

It is necessary to protect the interests of the 900 million farmers, he pointed out. He also said without reservation as early as in 1989 that we must pay attention to safeguarding producers' interests. "If we harm farmers' interests today, we will be punished tomorrow. These historic lessons are profound," he added.

Dwelling on the current status and problems in China's agriculture, the Minister of Agriculture said that the rural task is "arduous" and that "we need to go through a process" in solving the problems in rural areas.

There is a good aspect in the current situation in agriculture. That is, both the CPC Central Committee and the State Council are paying full attention to this basic industry—agriculture, Liu Jiang said. In the past several months, General Secretary Jiang Zemin and Premier Li Peng gave important talks. The State Council had also

adopted a series of measures. With these talks and measures, "I have strong backing," he added.

Liu Jiang revealed that his wife was his schoolmate. She is the head of a certain foreign trade department. Liu Jiang has two daughters. Both of them were born in Tibet. Right now, they are working. Liu Jiang said with gratification that his family life is full of happiness.

#### Potential GATT Impact on Agricultural Sector

93CE0452C Beijing NONGMIN RIBAO in Chinese  
31 Mar 93 p 2

[Article by Feng Yan: "China Faces Trade Competition, Meets New Challenge in Agriculture"]

[Text] China is prepared to compete in the international market to an even greater extent. The problems that await agriculture will affect not only those engaged in farming, but also industrial enterprises that use agricultural and sideline products as raw material.

After the introduction of reform and opening up to the outside world, increasingly frequent exchanges between China and foreign countries have ended the lengthy blockade in China's agriculture, formed an exchange network at different levels, through varied channels and in various forms, and quickened China's pace in developing agriculture.

During the 1980s, the output volume of China's farm products increased on a large scale. The average annual growth rate of its major agricultural products exceeded that in the world. Of these products, the annual rate of growth of cotton, sugarcane, cured tobacco, pork, beef and mutton more than tripled the world figure. With the exception of rape, all major farm products in China rank within the first four places in the world.

The increase of the output of farm products, particularly that of cash crops, has expanded the volume of light and textile products for export, which use agricultural and sideline products as raw material; and brought about the readjustment of China's import and export structure. Between 1980 and 1990, China turned its deficit into surplus through imports and exports. It increased the volume of farm produce exports by \$3.6 billion; gradually changed the pattern of exporting only raw materials to that of "new agricultural products" which lie between agricultural and industrial products; raised the degree of processing for farm produce and earned more foreign exchange; and helped increase their share on the world market.

#### Situation in World Trading, China's "Re-Entry Into GATT" To Greatly Affect China's Imports and Exports of Farm Products

While China scores tremendous developments in agriculture, enormous changes have also taken place in the world's agricultural production. The long-term policy to subsidize agricultural production in their own countries adopted by the United States, Japan and European

Community and the development of the world's agricultural science and technology have rapidly raised the standards in agricultural production. A number of developing nations have also used foreign capital to promote agricultural production, raised the level of self-sufficiency in grain and expanded the export of their cash crops. China's re-entry into GATT will create favorable conditions for China's exports to become more competitive. However, this may also lead to import imbalance and domestic production may shrink. In recent years, the volume of China's grain exports only make up 2.5 to 4 percent of world trade volume. China's competitiveness is not strong. As for grain crops, China mainly imports wheat. Right now, the wheat price is relatively low on the world market, but the quality of foreign wheat is better than that of domestic wheat. Recently, the state again raised the price for the purchase of domestic wheat on a contractual basis. Thus, domestic wheat will be more expensive than wheat on the world market. Once administrative restrictions are lifted, imported wheat will deal blows to domestic wheat production. Particularly it will affect grain production in coastal areas. There are also plenty of sugar, cooking oil, natural rubber and other agricultural and sideline products on the world market. Their prices are fairly low.

#### Three Major Factors Affecting Competitiveness of China's Farm Produce

1. China's labor productivity is lower; its production costs are higher; and its products are less competitive. China's natural resources are limited. The per-capita arable land is only 1.26 mu, less than one-third of the world average figure. The development of nonagricultural industries since 1978 has prevented labor productivity from falling. However, industries absorb less manpower than is newly added. In addition, the prices of means of production in agriculture have increased, lowering the rate of capital return. The state must rely on sharp price increases of farm produce to maintain normal production. As a result, the prices of a large number of farm products in China are close to or even higher than the prices on the world market. Thus, such products are less competitive. 2. The development of industries for farming fails to meet the requirements in promoting agricultural modernization. China turns out 11.26 percent while using 17 percent of the total amount of chemical fertilizers produced in the world. China also apparently produces less potash fertilizer. Due to the lack of potash fertilizer resources, China will need to rely on imports. China's farm machinery lacks varieties. Farm machines are seldom sold in sets, and it takes a much longer time to replace old farm machines with new ones. There are only 6.1 tractors available for 10,000 mu of farmland, less than one-third of the comparable figure in the United States. 3. Less achievements in agricultural science and technology are put to actual use in farming. This has impeded China's agricultural development. China has made fairly large progress in agricultural science and technology. Some of the research projects are up to the world standards, while others reached the

world's advanced level. However, only 30 percent of China's achievements in agricultural science and technology are put to actual use in production, while developed nations have put 70 to 80 percent of their achievements to good use. There are less personnel and funds to promote agro-techniques in China, and the labor forces in farming are of low quality. The number of agricultural scientists and technicians make up only 5.7 percent of the total number of scientific research personnel in China. Each scientist or technician must serve 2,585 mu of farmland and 1,615 farmers on average. Apparently this cannot meet the requirements in developing commodity economy in China's rural areas.

#### Future Orientation for Agricultural Development

The 1990s will be years in which tremendous changes will take place in world agricultural production. In the light of China's characteristics, we must work out a long-term strategy to use the international market to speed up agricultural development in China. This strategy is listed as follows:

—Gain a foothold in China, while actively participating in the world market. We must seize the opportunity of having an abundant supply of farm produce on the world market, and formulate a long-term plan for imports. We must use grain imports to strengthen China's position in conducting negotiations in international trade.

—Make the best use of the favorable conditions and avoid the unfavorable ones in developing agriculture to earn more foreign exchange. We must make use of China's favorable conditions in growing various crops in the tropical and temperate climate and in developing China's unique agricultural and sideline products of high-valued small varieties.

—Apply more results in agricultural scientific research to actual production, and promote agriculture with high efficiency. In short, China is a major farming nation. In the course of developing world agriculture, we must find a path suitable for developing our own farming, and make contributions to promoting world agriculture.

#### Rural Saving Deposits Increase Steadily

93CE0407A Beijing NONGMIN RIBAO in Chinese  
14 Mar 93 p 3

[Text] Since the Third Plenary Session of the CPC 11th Central Committee implemented reforms and opening up, China's agricultural outlook and rural economy have undergone historic changes. China's agricultural banks and rural credit cooperatives have relied greatly on the correct leadership of party and government departments at all levels as well as the dedication and support of millions of rural residents. Because of strenuous efforts by cadres and personnel workers at all levels, China's rural savings have developed very quickly. At the end of January 1993, savings deposits in China's agricultural banks and rural credit cooperatives exceeded a landmark 500 billion yuan, accounting for 41.19 percent of total

savings nationwide, and ranking first among all financial institutions. This has contributed to enlivening the urban and rural economy and supporting national economic construction.

**1. The development of the rural economy is the material basis of the rapid increase in rural savings.**

Rural areas are at the forefront of China's economic reform, and their achievements have also been the most apparent. The development of the rural commodity economy has increased farmers' income, clothing, food, housing, transportation, and other necessities of life have also clearly improved. Farmers in some areas are becoming quite well off. In 1991, the average annual income of farmers nationwide reached 708.5 yuan, 310.4 yuan more than in 1985. If the gap in average income and the gap in years is taken into account, there is an average of 100 billion yuan in surplus consumer funds every year. This is the main reason that a foundation of stable growth in rural savings had been maintained.

**2. The attainment of a new level in rural savings is the result of courageous reform and solid work on the part of agricultural banks and rural credit cooperatives.**

In 1985, China's financial circles implemented an important policy whose main purpose was reforming the system of credit planning and management, that is the People's Bank was no longer responsible for the funding supply of specialized banks; each specialized bank became largely self-reliant in its efforts to acquire credit funding. In this way agricultural banks and rural credit cooperatives relied strongly on the efforts and support of party and government departments at all levels to actively mobilize social forces and strenuously develop the rural savings business.

First, a management system specifically responsible for organizing funding and a credit network extending to all cities and towns nationwide was established. In 1985, a four-tier management system made up of funding departments, bureaus, branches and sections was established, which accelerated the establishment of savings network points and savings brigades. Currently, agricultural banks have more than 50,000 savings absorbing organizations of all kinds and more than 180,000 full-time savings personnel. Rural credit cooperatives have 58,000 independent accounting organizations, more than 50,000 branch organizations, 270,000 brokerage organizations, and more than 500,000 secondary personnel. Agricultural banks and rural credit cooperatives savings network encompasses all cities and towns nationwide, and constitutes a specialized bank with the largest financial network in the country, with the broadest scope and farthest reach.

Second, to accommodate the various levels of needs among urban and rural residents, a series of effective new forms of savings were initiated. In addition to traditional current accounts, fixed accounts and overseas Chinese renminbi accounts, agricultural banks and rural credit cooperatives also started dual fixed current

accounts, courtesy-card accounts, young pioneer accounts and others, to give the vast number of rural and urban residents more opportunities to choose. In addition, we also actively entered the credit card business. Currently, agricultural banks formally issue credit cards in 99 cities, with 3,871 network points, 135,800 cards issued and 105.79 million yuan in credit card deposits. This not only makes it more convenient for households to do business and travel, but it also opens up a new channel for organizing funding.

Third, there was an overall effort to strengthen internal management, initiate high-quality service and attract more households. We established and implemented a series of goals for standardizing savings management, with the result that in outward appearance, business operations, security, standardization and other areas, a new level was reached. Among the large number of savings organizations and savings personnel, quality service competitions were actively held, consisting mainly of guaranteeing business hours, warm customer reception, punctual operations and patient, attentive service. At each level, "10 Quality Savings Departments" and "10 Quality Savings Employees" activities were held. At the same time, the number of agricultural banks and rural credit cooperative departments using computers to handle savings business reached more than 10,000, and more than 100 cities had networked exchanges, which greatly increased work efficiency, shortened waiting time for savings customers, and ensured the accuracy and security of savings deposits. In addition, we persistently carried out publicity work on savings. This increased the visibility and attraction of agricultural banks and rural credit cooperatives and developed the breadth and depth of savings intake.

**3. Rural savings are the primary source of funds for agricultural banks and rural credit cooperatives.**

Before 1984, agricultural banks and rural credit cooperatives funding organization work was basically unified, such that rural credit cooperatives were mainly responsible for organizing rural savings and agricultural banks were mainly responsible for the savings of state-run enterprises and groups. In 1984 rural credit cooperatives had only 53.8 billion yuan, which accounted for only about half of all rural savings and less than one-third of all rural credit. After 1985, agricultural banks gradually established its own funding source system, and its strength in credit funding increased steadily. At the end of 1992, combined savings in agricultural banks and rural credit cooperatives reached 661.51 billion yuan, 4.37 times the 1985 figure. Within that, rural savings grew from 72.013 billion yuan to 483.971 billion yuan, an increase of 5.72 times. The proportion of rural savings in agricultural banks and rural credit cooperatives since 1985 grew from 44 percent to 73.16 percent, which greatly benefited the stability of finances, the market and other areas.

Agricultural banks and rural credit cooperatives rapid growth in all types of savings provided the conditions for

continual expansion of the scope of credit. At the end of 1992, agricultural banks and rural credit cooperatives various types of credit amounted to 789.155 billion yuan, equal to 3.84 times the amount in 1985. Of that amount, urban credit accounted for 187.675 billion yuan and rural credit accounted for 179.86 billion yuan, equal to 5.3 times and 4.24 times the 1985 amount, respectively. The large-scale increase in agricultural banks and rural credit cooperatives various types of credit has had a decisive effect on the overall development of the rural economy.

### Chemical Fertilizer Plants Suspend Production

93CE0452B Beijing JINGJI RIBAO in Chinese  
22 Mar 93 p 5

[Article by ZHONGGUO HUAGONG BAO reporter Shen Fei: "On Cold, Hot Chemical Fertilizer"]

[Text] "Chemical fertilizer is once again overstocked." This inauspicious sign has again kept those in the chemical department busy at a time when preparations are being made for spring farming and agricultural production is going up.

It is reported that right now, half of the 600-odd phosphate fertilizer producing enterprises in the nation have suspended production or are only partially operating. The more than 20 large- and medium-sized and over 80 small high-density composite phosphate fertilizer factories which the state spent 17 billion yuan to build since the beginning of the Seventh Five-Year Plan were idle on the day they were completed. The chemical fertilizer industry is faced with the most serious overstock and slack season since 1984.

A relevant department believes that the direct reason for the chemical fertilizer overstock is the loss of control in importing chemical fertilizer. This has battered the domestic market. The total supply of chemical fertilizer exceeds the farmers' total demand for three consecutive years since 1989. The amount of actually imported chemical fertilizer in 1991 was 89 percent higher than the state plan, and the amount of imported chemical fertilizer accounted for 62.3 percent of the chemical fertilizer produced in China.

Noteworthy is the fact that China is a nation with insufficient chemical fertilizer. Let us take 1993 as an example. Farmers need a total of 120 to 130 million tons of chemical fertilizer, while China can only produce a total of 105 million tons of chemical fertilizer, a shortage of over 20 million tons. On the surface, imported chemical fertilizer has caused overstock, but actually there are other profound reasons.

The market for chemical fertilizer is agriculture, and its users are farmers. A sluggish market for chemical fertilizer is, in the last analysis, the result of farmers' reduction in investment on farmland and in the use of chemical fertilizer. Farmers like to use chemical fertilizer, but they cannot afford to buy it. Their net income

for growing a mu of wheat in six months is only 100-odd yuan. Working hard for six months, they can only afford to buy two bags of chemical fertilizer. They have no money to make investment for reproduction.

During the past 10 years and more, China's chemical fertilizer underwent three major slack seasons. All of them, more and less, followed the same pattern. After the grain output hit the highest level in history, what closely followed were difficulties in selling grain, cotton and hogs. Finally it was followed by difficulties in selling chemical fertilizers. In a lean year when the grain price is high, farmers are willing to invest in farming. When agriculture becomes "hot," chemical fertilizers also become "hot." When grain price drops, chemical fertilizers also become "cold."

Chemical fertilizer is an important product affecting both industry and agriculture. If we analyze the rise and fall of the price of chemical fertilizer from an economic point of view and size up the situation on agriculture in connection with the sluggish sales of chemical fertilizer, it is not difficult for us to draw the conclusion that the volume of sales of chemical fertilizer is a "thermometer" of agricultural development, while the ups and downs of the chemical market represent a "balance" in measuring the degree of coordination between industry and agriculture.

The sluggish market of chemical fertilizer has already lasted three years since 1989. This period has never lasted so long in history. What are the future prospects? According to statistics compiled by the Ministry of Commerce, during January 1993, 3.46 million tons of domestic chemical fertilizers were procured, a drop of 13 percent; 2.6 million tons of imported chemical fertilizer arrived, an increase of 100 percent; 2.69 million tons of chemical fertilizer were sold, down 10 percent; and 28.09 million tons of chemical fertilizer were in stock, down 7 percent as compared with the same period in 1992. This indicates that the amount of chemical fertilizer procured and sold by various commercial departments was on the decrease except in cases wherein they must accept imported chemical fertilizer because of binding contracts. Main emphasis was placed on selling chemical fertilizer in storage. During January this year, a total of 1.29 million tons of chemical fertilizer were produced by the industry, a drop of 5.6 percent over the same period in 1992. Small enterprises producing chemical fertilizer are running at 60 percent capacity, down 4.4 percent over that in December 1992.

After spring, a peak season for the use of fertilizer in farming, chemical fertilizer will start to sell well. As far as the demand is concerned, farmers' purchasing power will increase following the implementation of the state policy on agriculture and the redemption of IOUs in the farmers' hands. Meanwhile, more chemical fertilizer will be in use. Particularly in the near future, the use of chemical fertilizer will reach a crest, and a large amount of chemical fertilizer will be used. As far as the supply is concerned, state subsidies to import chemical fertilizer

have been canceled. The amount of imported chemical fertilizer will sharply drop, because there is not much profit to import chemical fertilizer. The operating rate of enterprises producing chemical fertilizer in China is at the lowest level, and the amount of chemical fertilizer in storage is close to the normal level. The amount of chemical fertilizer available on the market is gradually dropping.

Due to the excessive stockpiles of chemical fertilizer in the preceding stage, industrial and commercial enterprises still mainly sell the chemical fertilizer in stock during the spring farming season. After the peak farming season in which fertilizer is in great demand, the supply of chemical fertilizer on the market will drop to the lowest point. It is estimated that the market for chemical fertilizer will bounce back during the sowing season in the fall because there will be a greater demand of chemical fertilizer, while the supply decreases. However, during the Seventh Five-Year Plan, China has greatly readjusted the structure of its chemical fertilizer industry. There will be tremendous potential in increasing the capacity in the production of chemical fertilizer. A buying spree for chemical fertilizer such as that in 1987 and 1988 is not expected to occur. Urea, ammonium phosphate and other high-efficiency fertilizers may be in relatively good demand. To avoid a situation wherein chemical fertilizer may be either overstocked or out of stock, enterprises producing chemical fertilizer should overcome their difficulties, and strengthen production. Various departments concerned should also import an adequate amount of such fertilizer during the second half of this year.

#### Rural Economic Structure Growing More Rational

*93CE0470A Beijing JINGJI CANKAO BAO in Chinese*  
6 Apr 93 p 2

[Article by reporter Xiao Demu (5135 1795 2606): "Rural Economic Structure Is Becoming Rational Day by Day"]

[Text] Information provided by the Ministry of Agriculture shows that China's rural economic structure is gradually becoming rational. This is mainly reflected in the proportional growth of nonagricultural industries by big margins in the present rural economy, and the accelerated process of rural industrialization.

It is learned that in China's total rural social output value of 1987, the proportion of nonagricultural industries became for the first time larger than the agricultural output value, amounting to 50.4 percent. There was gradual increase one year after another. By 1991, nonagricultural industries accounted for 57.1 percent in the total rural social output value, an increase of 7 percent within a period of four years. In 1992, with the faster development of a commodity economy, China's commercialization of agricultural production and management marketing were increasingly enhanced, and distribution and placement of resources and rural industrial

structures became rational day by day. According to some predictions, in last year's total rural social output value, the output value of nonagricultural industries exceeded 60 percent, an increase of 6.3 percent over the previous year, thus becoming the year in which the value of nonagricultural industries enjoyed the fastest proportional growth.

At present China's agriculture has entered a new period of development. The primary characteristics are a change from seeking production output growth to paying attention to improvement of both the production output, quality, and efficiency, a change from the realization of seeking material quotas to the realization of seeking product values, and a change from state planned production to market-oriented production. Under this new situation, appropriate readjustment was conducted in the structure of growing industries. In 1992 the sown area of grain crops was 1.65 billion mu, a reduction of 27.96 million mu over the previous year. The sown area of cash crops increased by 10 million mu over the previous year. The variety of grain crops have also been further optimized. There was reduction in the sown area for poor quality early long-grained nonglutinous rice. Sown area was increased to produce good quality rice. The sown area for soybeans also increased. According to the responsible people of the Ministry of Agriculture, this type of change and readjustment is basically in conformity with the policy of readjusting the structure of growing industries, that is, "stabilizing major crops, and readjusting minor ones." This is also the natural outcome of agricultural production developing toward high yield, good quality, and high efficiency.

#### Wholesale Farm, Sideline Product Markets Develop

*93CE0470B Beijing JINGJI CANKAO BAO in Chinese*  
11 April 93 p 2

[Article by Ye Qiyuan (0673 1142 0337): "The Development of Agricultural and Sideline Products Wholesale Markets Is Rather Pleasing"]

[Text] With the establishment of a socialist market economic system and continuation of reform of the purchasing and selling system for agricultural and sideline products, China's agricultural and sideline products wholesale markets greatly developed last year.

By the end of last year, there were 1,858 agricultural and sideline products wholesale markets across the country, 349 more than the previous year, an increase of 23.1 percent, which is the biggest growth rate in recent years. Last year the transaction volume of agricultural and sideline products wholesale markets amounted to 22.4 billion yuan, an increase of 46 percent over the previous year. The transaction volume of some major agricultural and sideline products in town and village trade fairs was commensurate with the retail volume of the same types of products of the municipal state-owned businesses, proportions being 13.25 percent for grain; 42.19 percent

for edible oil; 407.12 percent for fresh eggs; 415.18 percent for vegetables; 185.93 percent for pork; 204.23 percent for chicken and geese; 394.12 percent for aquatic products; and 611.7 percent for dried fruits. This is mainly because the mainstay of agricultural and sideline products wholesale markets was brought into play.

When talking about further developing agricultural and sideline products wholesale markets, a responsible person for the State Industrial and Commercial Administration pointed out that at present the absolute number of wholesale markets should not be considered small. However, the geographic distribution is very uneven. Development was relatively fast along the southeastern coastal areas, accounting for 72 percent of the total wholesale markets; development was relatively slow in the middle western areas, only making up 28 percent. In the future there will have to be a relatively fast development of the wholesale markets in the middle western areas, especially in the development of wholesale markets in production areas, there has to be an organic combination of the production areas and consumption areas so as to guarantee the smooth circulation of goods. At present the emphasis should be placed on the development of a number of grain wholesale markets, allowing and supporting diverse economic elements, multi-circulation channels, and participating in market management. State-owned grain and oil enterprises should make effort to master the primary wholesale businesses by participating in market competition. Enterprises, units, and individuals that meet certain conditions, after being certified and registered by business administration organs, and having obtained business licenses, can engage in the grain and oil wholesale and retail business.

The development of agricultural and sideline products wholesale markets should be conducted under the unified planning of local governments to prevent repeated construction, and blind competition from occurring. Because wholesale markets have a huge volume of transactions, which has both advantageous and disadvantageous environments, the extent to which markets are active can be directly affected. However, in speeding up the improvement of market transaction environment, focus should be set on expansion in original places. Places where people are familiar with transactions should not be easily forsaken. Efforts will have to be made to improve various service facilities, and special attention given to bringing market information into play. Agricultural and sideline products are different from other products. We must correctly and effectively guide farmers in making rational arrangements for production, strengthen farmers' confidence of doing a good job in agriculture, and provide markets with marketable

agricultural products to make markets more active and develop toward higher levels.

**Zhejiang Peasants Forsake Contracted Land**  
93CE0470C Beijing NONGMIN RIBAO in Chinese  
6 Apr 93 p 1

[Article by Ge Yan (2047 6056) and Lao Qing (0525 7230): "Growing Grain Brings Poor Benefits to Huangyan, No One Asks About Transferring Contracted Land"]

[Text] In the southeastern economically developed areas of Huangyan, Zhejiang, economic efficiency of grain growing peasants lags far behind peasants engaged in other trades. Moreover, the disparity is growing increasingly greater.

It is learned that the annual average income per capita was around 3,000 yuan for peasants engaged in industry, sideline products, and township and town enterprises; above 5,000 yuan for those engaged in labor and technological exports; only 1,000 to 1,500 yuan for grain growing peasants, and some even suffered losses. Last year, for many reasons a number of important grain growing households suffered drastic reductions of economic income. This spring they canceled one after another the majority of the land they contracted. As a result, grain growing acreage was obviously reduced. In Yuanqiao village there was an important grain growing household that grew 40 mu of grain last year (including the land they contracted and the land transferred to it). Because costs apparently increased, as high as 430 yuan per mu, and compounded by frequent disasters and other reasons, the household's annual income offset its expenditures, with a sheer loss of 5,320 yuan. Some peasants who came to Huangyan with the purpose of engaging themselves in transferring contracts and growing grain backed out one after another, packed up their luggage, and returned home.

Some of the city's peasants engaged in other trades, in order that the land they contracted would not stay barren, were even willing to suffer "bloodletting," and changed from "receiving rent for transferring contracts" to "paying for the contracted land." The amount of funds to be paid for transferring the contracted land kept rising, to 100 to 200 yuan per mu at the present rate. However, big grain growing households are indifferent about this and unwilling to accept it. Lin Xinguang [2651 2450 0342] and six other peasants from Lixin village of Tongyu town were willing to pay 103 yuan per mu in asking the village head to help them transfer the land they had contracted. The news got around, but nobody asked about it. The village head was willing to help but was unable to do so.

### New Power Alignments in Legislative Yuan

*93CM0197A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 309, 13 Feb 93 p 50*

[Article by Lin Chang-yao (2651 7022 3652): "Factions in the KMT and the Democratic Progressive Party"]

[Text] In the wake of the election for president of the Legislative Yuan, KMT legislators can now clearly be divided into four factions: the New KMT Alliance faction, Collective Wisdom Coalition, Kao Yu-ren [7559 5148 0088] faction, and a fourth group made up of at-large lawmakers and those elected by overseas Chinese. The New KMT Alliance and Collective Wisdom Coalition have inherited the resources of the past and carry the emotional baggage of yesteryear. The rise of the Kao Yu-ren faction coincides with the trend toward Taiwanization. In its identification with local interests and philosophical flexibility, it differs from all past factions. As for the performance of at-large lawmakers, we can only wait and see.

No faction is more motivated than the New KMT Alliance faction. Led by several top leaders, it not only has launched a tireless offensive aimed at people outside, but it has never stopped cultivating the organization itself. At the regular meeting on 9 February, the faction did more than consolidate ties among existing members. It also did its level best to woo new lawmakers who may identify with it. Now that an office has been set up, its staff has set about building up the organization. Besides Li Sheng-feng [2621 0524 1496], who is taking personal command, Tsao Yuen-chang [2580 0626 7757], who lost an election in Mazu, has also joined the group. According to Chung Jih-hung [6988 2480 4767], a staffer, the office is a joint office that belongs to committee members. Office assistants provide lawmakers comprehensive materials for querying the government.

Not to be outdone in the least, Wei Yung [7614 6978] founded the "public policy round-table" at the end of last month. Among its members are Ting Shou-chung [0002 1343 0022], Chu Kao-cheng [2612 7559 2973], Lin Tzu-chia [2651 1807 0857], Lin Shou-shan [2651 1108 1472], Tsai Chung-han [5591 0022 3211], Hsu Chung-hsiung [1776 0022 7160], and Hsieh Chi-tai [6200 0796 1129]. Acting posthaste, it held its first regular meeting on 2 February and will push its legislative agenda in accordance with the expertise and political leanings of its members. The "round-table" emphasizes that it is above factionalism and provincial origins. It presents itself as an open forum, its main concern being simply public policy.

Arrayed against the two organizations mentioned above is the Kao Yu-ren group, made up of 20 people, its own estimate, including former members of provincial, municipal, and county councils. The group began flexing its muscle as soon as Kao Yu-ren launched his bid for the president of the Legislative Yuan. But it is still unclear whether or not it wants to formally organize as a sub-group. Made up of Kao Yu-ren, Cheng Feng-shi [6774

6646 2514], Wang Shi-hsiung [3769 0013 7160], and Hung Hsing-jung [3163 1840 2837], this force is heavily wooed by both the New KMT Alliance faction and Collective Wisdom Coalition. Swapping votes with the New KMT Alliance even as it emphasizes Taiwan consciousness in unison with the Collective Wisdom Coalition, the Kao Yu-ren faction describes itself middle-of-the-road, a position it seems to be very comfortable with.

The Collective Wisdom Coalition is probably the most problematic of all groups. Participation by lawmakers in its seminar held last month to pass on experience was lukewarm. Forces inclined to align themselves with it are still in an observation mode. There are even those within the group who are thinking of changing its name. What should be the group's philosophy in the future? That question continues to vex the organization. We can only keep an eye on their activities in the near future.

There are distinctive factional divisions within the Democratic Progressive Party [DPP]. The most powerful is the 10-member New Tide faction, which continues to receive an endless stream of ammunition from the new parliamentary office. The new expanded post-election parliamentary office is staffed with assistants to help with the drafting of bills. It is the largest joint office within the DPP.

In the Justice faction, Lu Hsiao-lien [0712 4423 5571], Peng Pai-hsien [1756 4102 7359], and Chen Shui-pien [7115 3055 2078] have all set up offices outside staffed with an army of assistants. Assistants of the Justice Alliance, on the other hand, do not prepare materials for querying the government for individual lawmakers, but only provide general services. The role of the Justice Alliance is not as well defined as that of the new parliament. Instead the assistants of individual lawmakers still do most of the work.

The office of the Welfare State Alliance has not been finalized, but Liu Chen-hsiang [0491 6297 4382], the official in charge of the office who is also a member of the National Assembly, said that the welfare state faction continues to solicit opinions from the public as it did in the election and makes the livelihood bill its top priority, concentrating in particular on the various unreasonable welfare systems in the nation today.

Caught in the middle between the two parties, lawmakers of other parties will come under even greater pressure. Chu Kao-cheng [2612 7559 2973] of the Social Democratic Party and the New KMT Alliance are drawing close and closer to each other, using nonmainstream resources to control the whole situation. But whom Chu Kao-cheng will ally with in the next stage is not yet decided. Lin Cheng-chieh [2651 2973 2638] and Yeh Hsien-hsiu [0673 2009 0208] serve "decorative" purposes, and may not play much of a role.